

# INNOVATION ACT

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## HEARING BEFORE THE COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

ON

**H.R. 3309**

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OCTOBER 29, 2013

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**Serial No. 113-58**

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Printed for the use of the Committee on the Judiciary



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# INNOVATION ACT

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TUESDAY, OCTOBER 29, 2013

HOUSE OF REPRESENTATIVES  
COMMITTEE ON THE JUDICIARY  
*Washington, DC.*

The Committee met, pursuant to call, at 10:10 a.m., in room 2141, Rayburn Office Building, the Honorable Bob Goodlatte (Chairman of the Committee) presiding.

Present: Representatives Goodlatte, Sensenbrenner, Coble, Smith, Bachus, Issa, Forbes, King, Franks, Jordan, Poe, Chaffetz, Marino, Gowdy, Labrador, Farenthold, Holding, Collins, DeSantis, Smith, Conyers, Watt, Lofgren, Cohen, Johnson, Chu, Deutch, DelBene, Garcia, and Jeffries.

Staff present: (Majority) Shelley Husband, Chief of Staff & General Counsel; Branden Ritchie, Deputy Chief of Staff & Chief Counsel; Allison Halataei, Parliamentarian & General Counsel; Vishal Amin, Counsel; Kelsey Deterding, Clerk; (Minority) Perry Apfelbaum, Minority Staff Director & Chief Counsel; Danielle Brown, Parliamentarian; Stephanie Moore, Counsel; and Jason Everett, Counsel.

Mr. GOODLATTE. Good morning. The Judiciary Committee will come to order.

And, without objection, the Chair is authorized to declare recesses of the Committee at any time.

Before we begin, I want to take a moment and acknowledge a recent milestone for the former Chairman of the Judiciary Committee, the gentleman from Michigan, Mr. Conyers.

During the month of September, when we were focused on other things that were perhaps not as important as this, we overlooked the fact that Mr. Conyers surpassed Sam Rayburn as the fifth longest serving Member of the U.S. House of Representatives in our Nation's entire history. So we commend the gentleman from Michigan for this achievement. And thank him for the pleasure of working with him for so many years.

Mr. CONYERS. Thank you, sir. Thank you very much. [Applause.]

Mr. GOODLATTE. Do you want to say something?

Mr. CONYERS. Chairman Goodlatte that—

Mr. GOODLATTE. Without objection, the gentleman is recognized to explain that.

Mr. CONYERS. Yes. [Laughter.]

Chairman Goodlatte, this is a surprise and a privilege of working here in the House.

I came here when Manny Celler was the Chairman, and it was the Committee that I wanted to serve on. And, I must admit, it was—the civil rights issues were very prominent at that time. And I’ve enjoyed it ever since and that includes during your chairmanship as well. And I thank you very much for your generosity.

Thank you.

Mr. GOODLATTE. The Chair thanks the gentleman and thanks him for making that wise decision.

Today we are here to discuss H.R. 3309, the “Innovation Act.” The enactment of this bill is something I consider central to U.S. competitiveness, job creation and our Nation’s future economic security. This bill takes meaningful steps to address the abusive practices that have damaged our patent system and resulted in significant economic harm to our Nation.

During the last Congress, we passed the America Invents Act. Many view the AIA as the most comprehensive overhaul to our patent system, since the 1836 Patent Act. However, the AIA was, in many respects, a prospective bill.

The problems that the Innovation Act will solve are more immediate and go to the heart of current, abusive patent litigation practices. This bill builds on our efforts over the past decade. It can be said that this bill is the product of years of work. We have worked with Members of both parties in both the Senate and the House, with stakeholders from all areas of our economy and with the Administration and the courts.

To ensure an open, deliberative and thoughtful process, we held hearings and issued two public discussion drafts, in May and September of this year, which led to the formal introduction of the Innovation Act last week.

Abusive patent litigation is a drag on our economy. Everyone from independent inventors to startups to mid- and large-size businesses face this constant threat. The tens of billions of dollars spent on settlements and litigation expenses associated with abusive patent suits represent truly wasted capital. Wasted capital that could have been used to create new jobs, fund research and development, and create new innovations and technologies that promote the progress of science and youthful arts.

Within the past couple years, we have seen an exponential increase in the use of weak or poorly-granted patents to send out purposely evasive blanket demand letters or file numerous patent-infringement lawsuits against American businesses with the hopes of securing a quick payday. Many of these abusive practices are focused not just on larger companies, but against small- and medium-sized businesses as well. These suits target a settlement just under what it would cost for litigation, knowing that these businesses will want to avoid costly litigation and probably pay up.

Such abusive patent suits claim ownership over basic ideas such as sending a photocopy to email, aggregating news articles, offering free Wi-Fi in your shop, or using a shopping cart on your website. Something is terribly wrong here. The patent system was never intended to be a playground for litigation extortion or frivolous claims.

One egregious example is of a company that has been suing small app developers and end users over a vaguely worded patent



that claims that any app that allows for in-app purchases violates their patent. This early-90's patent apparently discusses a method for providing remote customer feedback using a fax machine.

Though their patent may not be novel or nonobvious, they made their first obvious error just last month, when they sent Martha Stewart a demand letter asking for \$5,000 for each of her company's four apps. Instead of paying up, Ms. Stewart filed a declaratory judgment action in Federal court in Wisconsin. Fortunately, Ms. Stewart chose to fight. Unfortunately, many small businesses simply do not have the resources to do so and must capitulate to this type of patent extortion.

The Innovation Act contains needed reforms to address the issues that businesses of all sizes and industries face from patent-troll-type behavior, while keeping in mind several key principles including targeting abusive behavior rather than specific entities, preserving valid patent enforcement tools, preserving patent property rights, promoting invention by independents and small businesses, and strengthening the overall patent system. Congress, the Federal courts and the PTO must take the necessary steps to ensure that the patent system lives up to its constitutional underpinnings.

And let me be clear about Congress' constitutional authority in this area. The Constitution grants Congress the power to create the Federal courts, and the Supreme Court has long recognized that the prescription of court procedures falls within the legislative function. To that end, the Innovation Act includes heightened pleading standards and transparency provisions requiring parties to do a bit of due diligence upfront before filing an infringement suit is just plain common sense.

It not only reduces litigation expenses, but saves the courts time and resources. Greater transparency and information makes our patent system stronger.

The Innovation Act also provides for more clarity surrounding initial discovery, case management, joinder, and the common law doctrine of customer stays. The bill's provisions are designed to work hand-in-hand with the procedures and practices of the Judicial Conference including the Rules Enabling Act and the courts, providing them with clear policy guidance while ensuring that we are not predetermining outcomes. And that the final rules in the legislations' implementation in the courts will be both deliberative and effective.

We can take steps toward eliminating the abuses of our patent system, discouraging frivolous patent litigation and keeping U.S. patent laws up-to-date. Doing so will help fuel the engine of American innovation and creativity, creating new jobs and growing our economy.

I look forward to hearing from all of our witnesses on the Innovation Act and the issue of abusive patent litigation.

And it's now my pleasure to recognize the Ranking Member, the gentleman from Michigan, Mr. Conyers, for his opening statement. Mr. CONYERS. Thank you, Chairman Goodlatte.

Members of the Committee, there are few economic issues our Committee will face that are more important than whether and how to reform our patent laws.

Intellectual property, principally patents, are responsible for nearly one-third of all the jobs in U.S. economy. Our patent system, while not perfect, is the envy of the world and perhaps the most significant driver of growth in our economy.

I believe that issues of non-practicing entities, or the so-called patent trolls, present unique problems that are worthy of congressional attention. There is a disconnect when shell corporations with little or no assets can threaten thousands of small end users with ill-conceived patent litigation over ordinary business practices. If we don't know who these shell companies are, if the shell companies have no operating businesses or assets and if they are given free license to engage in endless and costly discovery we have a problem that requires our attention and legislation.

But, at the same time, we need to be careful in addressing these problems. Our first rule should be to make sure we do no harm to our patent system or take any actions which unintentionally discourage innovation or increase litigation. As the former director of Patent and Trademark Office, David Kappos, reminds us: we are not just tinkering with any system here. We're reworking the greatest innovation engine the world has ever known almost instantly after it has been significantly overhauled.

If there were ever a case where caution is called for, this is it. And, in this regard, I don't see any reason why we should be considering amending the fee-shifting statute, when the Supreme Court has just agreed to take up the very issue. Similarly, I see no rush to expand the use of business-method patents when the PTO and the courts are just now beginning to review cases brought under the law we just passed. Any changes we make must be carefully balanced and consistent with our principles and constitutional imperatives.

For 80 years we've asked our Federal judges, the experts on litigation, to develop rules for their own court rooms. That system has worked well and I see no reason to abrogate the principle of separation of powers now. And, if we're going to consider crafting new rules on discovery, stays and joinder, we should insist that the rules work the same for all parties, plaintiffs and defendants.

Nor should we be crafting a series of special carve-outs from the legislation for the pharmaceutical industry. The last thing we need to do is to create two systems of patent laws, one for the pharmaceuticals and one for everybody else.

We cannot lose sight of the single most important problem, to me, that's facing our patent system today: the continuing diversion of patent fees. The most effective step we can take in responding to abusive patent litigation is making sure poor-quality patents are not issued to begin with. To do that, we need to give our examiners the resources they need to review and analyze the hundreds of thousands of complex and interrelated patent applications they receive every year.

And that's why yesterday, along with my colleagues, Representatives Watt and Issa and Collins, we've introduced bipartisan legislation, the Innovation Protection Act, which does exactly that on a permanent and statutory basis. This will apply regardless of the sequester or any future shutdowns. And I stand ready, able and willing to work with Members on both sides of the aisle in tackling

these problems. But I would urge my friend the Chairman to move cautiously, carefully and deliberately.

And I thank you for the opportunity to deliver my statement.

Mr. GOODLATTE. Well, thank you, Mr. Conyers.

And we'll now turn to the Chairman of the Subcommittee on Courts, Intellectual Property, and the Internet, Mr. Coble of North Carolina, for his opening statement.

Mr. COBLE. I thank the Chairman. Good morning.

Good morning to our panelist and those in the audience.

Mr. Chairman, today we are here to build on our work to ensure that the U.S. patent system operates fairly for all parties in the context of litigation and in our courts.

Abusive patent litigation is a scourge. It is the product of those taking advantage of loopholes in the current system to engage in what amounts to litigation extortion. H.R. 3309: the Innovation Act, builds on the work of the Leahy-Smith America Invents Act, the AIA, from 2011 and previous Congresses.

The AIA was the most substantial reform to U.S. patent law since the 1836 Patent Act. While the AIA rewrote the underlying patent law and procedure at the PTO, the dramatic rise in abusive patent litigation over the last several years necessitates our work to address patent-litigation reform measures.

I call all of my fellow Members and stakeholders, Mr. Chairman, to continue working with us in a thoughtful and deliberative manner as we address abusive patent litigation. The rules that we put into place address some of the most abusive patent practices, but will apply to all patents. And so, it is important that we work collaboratively with the Administration and the Senate to ensure that, similarly to the AIA, we are enacting meaningful reforms that set patent litigation on the right track for decades to come.

American innovation cannot be held hostage to frivolous litigation from weak or overbroad patents. Companies are shutting down and folks are losing jobs. To ensure that the American economy does not suffer, due to legal gamesmanship that is currently taking place, enacting the Innovation Act, in my opinion, will be vital.

I hope to hear more today from our witnesses on the steps that need to be taken to promote America's innovation economy and create jobs.

Again, Mr. Chairman, thank you for calling the hearing and I yield back.

Mr. GOODLATTE. The Chair thanks the gentleman.

And is now pleased to recognize the Ranking Member of the Subcommittee, the gentleman from North Carolina, Mr. Watt for his opening statement.

Mr. WATT. Thank you, Chairman Goodlatte.

And let me join with you in congratulating our colleague Mr. Conyers on his historic accomplishment today.

I appreciate the opportunity to thank and welcome all the witnesses and especially to welcome back the former Undersecretary of Commerce and director of the United States Patent and Trademark Office, David Kappos. He's been a tremendously valuable resource to me, my staff and other Members of the Intellectual Property Subcommittee and this full Committee. And I want to thank him for his continued generosity of time and expertise.

I supported the America Invents Act and actively participated in its development through bipartisan Member meetings as well as joint meetings with stakeholders and Administration officials. The reforms enacted in the America Invents Act were designed to equip the PTO to deliver better quality and more efficient services to the innovative Americans who rely upon the office to evaluate and process their patent claims fairly.

The USPTO is ground zero in our efforts to maintain a world-class patent system. But, in order to protect our innovators from false reliance on bad patents, costly litigation in the Federal courts, services that are not commensurate with the fees they pay, and a full range of other negative things, we must find the political courage to fully fund the PTO. That is why I was happy to join with Mr. Conyers and my republican colleagues, Mr. Collins and Mr. Issa, in introducing the Innovation Protection Act. Guaranteeing that our inventors—whether large or small, whether individuals, businesses, or universities—get the services they pay for is not a complicated proposition.

Congress has studied and acknowledged the adverse effects of depriving the PTO of needed resources, for years. It's good policy with virtually universal support. And the time to deliver is overdue. And I hope that all Members of this Committee will join as cosponsors of our bill and that this Committee will act on our legislation promptly.

The problem we confront with the so-called patent trolls, while real, is not, in my opinion, not nearly as enormous as it has been portrayed, nor as urgent. The GAO dutifully fulfilled its mandate to assess the consequences of patent litigation by non-practicing entities.

The takeaway from that study was that operating companies fight more among themselves and brought the bulk of the patent lawsuits examined over a period of years. And that the non-practicing entities brought only a fraction of cases, but engage in litigation tactics that pose some unique challenges. These unique challenges will undoubtedly require equally unique solutions, not solutions that could have an adverse impact on all litigants.

While the Chairman's bill proposes a number of creative solutions, we need to carefully examine how they will effect not only the bad actors, but how they will effect all participants in the patent system. And, while the Chairman released two discussion drafts, prior to introducing his bill, to date the process of developing and testing these legislative proposals has been, quite frankly, both insular and disappointing.

While I support some of the concepts in H.R. 3309, I worry about the interaction and execution of some of its particular provisions and question the wisdom of others. In the meantime, we risk jeopardizing comity with the Federal Judiciary with overly prescriptive mandates, losing the trust and confidence of the small and independent innovators with unbalanced remedies that leave them out of the equation, and even worse we run the risk of enacting measures that could not only be ineffective, but could exacerbate the current problem or invite new unintended problems.

One need only look to the joinder provisions incorporated at the eleventh hour in the America Invents Act. These joinder provisions

were intended to disrupt the practice of joining unrelated defendants in a single case. In that respect, the joinder rules were successful. But the unintended, yet, upon reflection, not entirely unpredictable consequence has been an explosion of litigation against single defendants.

There are multiple credible and thoughtful stake holders who have expressed grave reservations about one provision or another in the Chairman's bill. These concerns should not be dismissed as opposition or obstructionism. Reflection is much needed here. And I hope that moving forward here, there will be in-depth, constructive and open reflection and engagement.

We have spent a considerable amount of time in various hearings discussing, even arguing about, the problem. I urge the Chairman to devote at least a comparable amount of time to evaluating these very discreet and unrelated proposed solutions.

I look forward to hearing from the witnesses and yield back.

Mr. GOODLATTE. The Chair thanks the gentleman.

And without objection, all other Members' opening statements will be made a part of the record.

[The prepared statement of Mr. Watt follows:]

**Prepared Statement of the Honorable Melvin L. Watt, a Representative in Congress from the State of North Carolina, and Member, Committee on the Judiciary**

Thank you, Chairman Goodlatte. I appreciate the opportunity to thank and welcome all the witnesses and especially welcome back the former Under Secretary for Commerce and Director of the United States Patent and Trademark Office (USPTO), Dave Kappos. He has been a tremendously valuable resource to me, my staff and other members of the Intellectual Property Subcommittee and this Committee and I want to thank him for his continued generosity of time and expertise.

I supported the America Invents Act (AIA) and actively participated in its development through bipartisan Member meetings, as well as joint meetings with stakeholders, congressional leadership and Administration officials. The reforms enacted in the AIA were designed to equip the PTO to deliver better quality and more efficient services to the innovative Americans who rely upon the Office to evaluate and process their patent claims fairly. The USPTO is ground zero in our efforts to maintain a world-class patent system. But in order to protect our innovators from false reliance on bad patents, costly litigation in the federal courts, services that are not commensurate with the fees and a full range of other negative outcomes, we *must* find the political courage to fully fund the PTO.

That is why I was happy to join with Mr. Conyers and my Republican colleagues, Mr. Collins and Mr. Issa, in introducing the "Innovation Protection Act." Guaranteeing that our inventors, whether large or small, whether individuals, businesses or universities, get the services they pay for is not a complicated proposition. Congress has exhaustively studied and acknowledges the adverse effects of depriving the PTO of needed resources for years. Its good policy with virtually universal support and the time to deliver is overdue. I hope that all members of this Committee will join as cosponsors of our bill and that this Committee will act on our legislation promptly.

The problem we confront with the so-called "patent trolls," while real, is not, in my opinion, nearly as enormous as it has been portrayed, nor is it as urgent. The GAO dutifully fulfilled its mandate to assess the consequences of patent litigation by Non-Practicing-Entities (NPEs). The take away from that study was that operating companies fight more among themselves and brought the bulk of the patent lawsuits examined over a period of years and that NPEs brought only a fraction of cases but engage in litigation tactics that pose some unique challenges. These unique challenges will undoubtedly require equally unique solutions, not solutions that could erect unfair barriers that impact all litigants.

While the Chairman's bill proposes a number of creative solutions, we need to carefully examine how they will affect not only the bad actors, but how they will affect all participants in the patent system. And while the Chairman released two discussion drafts prior to introducing his bill, to date the process of developing and

testing these legislative proposals has been, quite frankly, both insular and disappointing.

While I support some of the concepts in HR 3309, I worry about the interaction and executive of some of its provisions and question the wisdom and workability of others. In the meantime, if we move forward precipitously with this bill, we risk jeopardizing comity with the federal judiciary with overly prescriptive mandates, losing the trust and confidence of the small and independent inventors with unbalanced remedies that leave them out of the equation and, even worse, we run the risk of enacting measures that could not only be ineffective but could exacerbate the current problem or invite new, unintended problems.

One need only look to the joinder provisions incorporated at the eleventh hour into the AIA. These provisions were intended to disrupt the practice of joining unrelated defendants in a single case. In that respect the joinder rules were successful. But the unintended (yet, upon reflection, not entirely unpredictable) consequence has been an explosion of litigation against single defendants.

There are multiple, credible and thoughtful stakeholders who have expressed grave reservations about one provision or another in the Chairman's bill. These concerns should not be dismissed as opposition or obstructionism. Reflection is much needed here. And, I hope that moving forward there will be in-depth, constructive reflection and open engagement. We have spent a considerable amount of time in various hearings, discussing, (even arguing about) the problem. I urge the Chairman to devote at least a comparable amount of time to evaluating these very discrete and unrelated proposed solutions.

I look forward to hearing from the witnesses and yield back.

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Mr. GOODLATTE. We welcome our panel today.

And, if you would all rise, I will begin by swearing in the witnesses.

[Witnesses sworn.]

Mr. GOODLATTE. Thank you.

Let the record reflect that all the witnesses responded in the affirmative. And I'll begin by introducing them.

Our first witness is Mr. Krish Gupta, Senior Vice President and Deputy General Counsel of EMC Corporation. In his position, Mr. Gupta manages a worldwide portfolio of IP and technology licensing, including patent and trademark prosecution and IP litigation.

Prior to his position at EMC, he served 10 years as senior counsel at Digital Equipment Corporation. He is a registered patent attorney and currently serves on the board of directors at the Intellectual Property Owners Association and at the Association of Corporate Counsel, Northeast Chapter.

Mr. Gupta received his J.D. from Suffolk University Law School; MBA from the University of South Carolina, Columbia; M.S. in electrical engineering from Clemson University; and his Bachelor's Degree from the Birla Institute of Technology and Science.

Our second witness is Mr. Kevin Kramer. Mr. Kramer is vice president and deputy general counsel for intellectual property at Yahoo! where he is responsible for all intellectual property matters including the defense of the company in patent infringement cases.

Prior to joining Yahoo!, Kevin was a partner at the law firm Pillsbury Winthrop Shaw Pitman representing both plaintiffs and defendants in a wide range of patent litigation.

Kevin has also extensive government and international experience. He worked for several years as an associate solicitor for the U.S. Patent and Trademark Office. In that capacity he represented the USPTO in more than 20 direct appeals before the U.S. Court of Appeals for the Federal circuit and in numerous civil actions before the U.S. District Court for the District of Columbia.

Kevin also worked for several years as a legal officer in the Patent Cooperation Treaty Legal Division of the World Intellectual Property Organization in Geneva, Switzerland.

Our third witness is the Honorable David Kappos. We welcome Mr. Kappos' return in front of this Committee. He served as the Undersecretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office from August 2009 to January 2013. He is currently a partner in the law firm of Cravath, Swaine & Moore.

Before joining the PTO, Mr. Kappos led the intellectual property law department at IBM, serving as vice president and assistant general counsel for IP. During his more than 25 years at IBM, he served in a variety of roles including litigation counsel and Asia-Pacific IP counsel, based in Tokyo, Japan, where he led all aspects of IP protection activity for the Asia-Pacific region.

Mr. Kappos received his Bachelor of Science degree in electrical and computer engineering from the University of California at Davis in 1983; and his law degree from the University of California, Berkley, in 1990.

Our fourth witness is Mr. Robert Armitage. Over the past several decades, Mr. Armitage has been an active participant in formulating patent policy in the U.S. and abroad. And we are very happy to be bringing him back out of retirement for the day to testify in front of the Committee.

Mr. Armitage previously served as senior vice president and general counsel of Eli Lilly and Company. Prior to this, he served as chief intellectual property counsel for the Upjohn Company and was a partner in the Washington D.C. office of Vinson & Elkins LLP.

Mr. Armitage has served in as a past president of the American Intellectual Property Law Association and the Association of Corporate Patent Counsel.

Mr. Armitage received his Bachelor's Degree in physics and mathematics from Albion College, and his Master's Degree and Law from the University of Michigan.

Welcome to all of you.

And we'll begin with Mr. Gupta.

And let me say that each of your written statements will be entered into the record in its entirety and we ask that you limit your testimony to a summary in 5 minutes or less. To help you stay within that time, there's a timing light on your table. When the light switches from green to yellow, you will have 1 minute to conclude your testimony. When the light turns red, it signals that the witness' 5 minutes have expired.

Now, Mr. Gupta, welcome.

**TESTIMONY OF KRISH GUPTA, SENIOR VICE PRESIDENT AND  
DEPUTY GENERAL COUNSEL, EMC CORPORATION**

Mr. GUPTA. Chairman Goodlatte, Ranking Member Conyers and Members of the Committee.

My name is Krish Gupta and I am senior vice president and deputy general counsel for EMC Corporation. I would like to thank you for the opportunity to testify today regarding patent litigation reform and express EMC's strong support for the Innovation Act.

Headquartered in Hopkinton, Massachusetts, EMC is a global leader in cloud computing as well as data storage, backup and recovery systems.

EMC has a keen interest in seeing that our patent system is rational, fair and evenly balance. We create many innovations and look to the U.S. patent system to protect those innovations and the jobs that result from them. We have more than 3,600 U.S. patents.

At EMC, I have worldwide responsibility for IP law and licensing matters including patent litigation. In my 20 years in this field, I have witnessed firsthand how our patent system has undergone transformation, not always for the better. Abusive patent litigation has swept our country, diverting billions of dollars from economic growth and innovation to battling frivolous suits filed by patent assertion entities or PAEs.

Since 2005, EMC has been sued by PAEs over 30 times and has never found to have infringed. As a matter of principle we don't settle frivolous suits, but defending those suits has cost us millions and has caused great disruption of our business, requiring our employees to shift their attention from designing new products and growing the business to sitting in depositions or going to court.

EMC is not alone in this regard. For us a typical PAE suit involves a shell company with secret backers created solely to file suits. The PAE often sues EMC and dozens of companies in separate suits that get consolidated for pretrial purposes. The complaint is often vague, provides little information about the specific infringement allegations. When cases are consolidated, we lose some of our due process rights. We are forced to compromise on defense strategies and incur additional legal fees in coordinating with others.

Furthermore, PAEs try to pressure us into settlement by demanding thousands of documents and emails during discovery, most of which are irrelevant to the suit and costly to produce. If we want a decision on the merits, we have to typically wait 2 years, spend millions and endure massive business disruption. Meanwhile, the PAE has nothing to lose, with lawyers on contingency, and a steady income stream from defendants who have settled along the way. Faced with these choices, most defendants cave and are forced to settle. But we don't.

EMC supports the reform set forth in the Innovation Act. Five key elements of this bill are of particular importance to us.

First, this bill ensures that PAEs have something to lose when they file meritless suits. We believe the fee-shifting provision will strongly discourage the filing of frivolous suits.

Second, this bill levels the playing field by requiring disclosure of the real-party in interest and permitting joinder of that party. Entities that have a financial interest in a lawsuit should not be able to operate in secrecy. They should be part of the suit, subject to counter claims and liable for attorney's fees for frivolous suits.

Third, the bill recognizes the need to strengthen the specificity in pleadings for patent infringement cases. It ensures that a plaintiff has in fact conducted pre-suit diligence and has a real basis for filing suit.

Fourth, the legislation promotes certainty and discovery in patent cases. Discovery has become a significant weapon in the arse-



nal of PAEs to try to extort cost of litigation settlements in meritless cases.

Fifth, the bill protects end-user customers by providing explicitly that a manufacturer can intervene on behalf of and stay a case against a customer. PAEs sue customers in order to pressure the manufacturers to settle. This provision is a common sense approach that will curb this particularly egregious tactic.

In conclusion, EMC believes the Innovation Act must be enacted to restore accountability and balance back into the system to alleviate the unfair burdens that PAEs are able to put on hardworking companies that are the lifeblood of our economy. We believe that this legislation is essential to protecting America's position as the most innovative nation in the world. We urge you to swiftly pass the Innovation Act and we stand prepared to help you in any way we can to bring a bill to the President's desk in short order.

Thank you and I look forward to your questions.

[The prepared statement of Mr. Gupta follows:]



**Committee on the Judiciary  
U.S. House of Representatives**

**Hearing  
“H.R. 3309: Improving the Patent System to Promote  
American Innovation and Competitiveness”**

**Testimony of Krish Gupta  
Senior Vice President and Deputy General Counsel  
EMC Corporation**

**October 29, 2013**



**Testimony of Krish Gupta  
EMC Corporation  
Before the House Judiciary Committee  
October 29, 2013**

Chairman Goodlatte, Ranking Member Conyers, and Members of the Committee, my name is Krish Gupta, and I am Senior Vice President and Deputy General Counsel for EMC Corporation (EMC). First and foremost, I would like to express EMC's strong support for H.R. 3309, the Innovation Act, ("Innovation Act") introduced by Chairman Goodlatte and a significant and impressive group of bipartisan Members of Congress. The breadth and diversity of members who signed on to the legislation as original cosponsors is indicative of how widely recognized it is that there is a need for additional reform to our patent litigation system. We greatly appreciate the interest that you, both individually and as members of the committee, have taken in this matter.

I am a registered patent attorney with 20 years of experience in patent law. At EMC, I have worldwide responsibility for intellectual property (IP) law and technology licensing matters, including IP policy, patent and trademark prosecution, and IP litigation. I would like to thank you for the opportunity to discuss the importance of patents to EMC, the current state of the patent litigation system, and the urgent need for the reforms enumerated in the Innovation Act. This committee has consistently shown leadership in addressing the problems of the patent system, and today's hearing topic is one that hits close to home for our company and the business community. The Innovation Act is a major step forward toward curbing abusive patent litigation and making it possible for innovators to focus on developing the next new technology, rather than defending lawsuits.

**About EMC**

EMC was founded in Newton, Massachusetts, in 1979. Early on, it developed memory upgrades for minicomputers. By the late 1980s, the company sold advanced storage subsystems for minicomputers and solid-state mainframe storage. In late 1990, EMC introduced Symmetrix Integrated Cached Disk Array, which would become the most popular high-end storage system ever developed.

Since 2003, EMC has invested approximately \$30 billion in research and development, as well as in acquisition of technologies that have revolutionized the world of information technology. These investments have enabled EMC to broaden our product portfolio, enter new market segments and expand our addressable market opportunity. EMC has taken bold steps into software markets in backup, archiving, and recovery management; information security, information protection; data analytics; information intelligence; resource management; network systems management; eDiscovery, governance, risk, and compliance; cloud computing; and server and desktop virtualization; among others. Our 2004 acquisition of VMware, the global leader in virtualization, gives EMC the strongest virtualization portfolio in the IT industry by far.

Today, EMC is a global leader in enterprise scale information storage systems, backup and recovery systems, cloud computing, Big Data and IT backup and security solutions. We serve



the information security market through our security division, RSA. We also have a majority interest in Pivotal, another Silicon Valley-based business that provides the platform for next generation cloud computing and big data applications.

Headquartered in Hopkinton, Massachusetts, with additional concentrations of employees in California, North Carolina, Utah and Washington State, we employ approximately 61,000 people in 86 countries around the world. We rank 133rd on the Fortune 500, based on 2012 revenues of \$21.7 billion.

#### **Importance of Patents to EMC**

EMC's position of market leadership is the result of pioneering innovation, hard work, and substantial investment in new technologies. Innovation and intellectual property are our lifeblood, our key to survival, and our future. We have a 34-year track record of anticipating future needs and building and acquiring the technology solutions to solve problems in new and innovative ways.

EMC relies greatly on patent rights to establish and maintain our proprietary rights in our technology and products. Our patent portfolio includes more than 3,600 issued U.S. patents and is regularly recognized as one of the strongest and most impactful in the information technology business. These patents cover EMC's many innovations, including the hardware and software technologies used in our diverse product and service offerings.

#### **Patent Litigation is a Serious and Growing Problem**

The last several years have brought a dramatic increase in abusive patent litigation, which has significantly impacted EMC, our customers, and the entire business community. The number of companies sued by patent assertion entities (PAEs) grew more than 400% from 2007 to 2011<sup>1</sup>, and patent litigation costs have grown from \$7 billion in 2005 to \$29 billion in 2011.<sup>2</sup> Abusive patent litigation is a costly and rapidly-growing problem that is stifling American innovation and job creation each and every day.

In 2011, 2,150 unique companies were forced to defend 5,842 lawsuits initiated by PAEs.<sup>3</sup> These lawsuits have had significant impacts on large companies like EMC, but they have done much more profound damage to small- and medium-sized companies that lack the resources to counter these frivolous lawsuits. 55% of defendants accused of infringement by PAEs generate \$10 million or less in annual revenue, and 66% make \$100 million or less.<sup>4</sup> These are small, independent American innovators who are having their growth stifled by abusive patent litigation.

<sup>1</sup> Government Accountability Office, *Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality*, GAO-13-465, August 2013. Print.

<sup>2</sup> James E. Bessen & Michael J. Meurer, Michael J., *The Direct Costs from NPE Disputes* (June 28, 2012), Cornell Law Review, Vol. 99, 2014, Forthcoming; Boston Univ. School of Law, Law and Economics Research Paper No. 12-34. Available at SSRN: <http://ssrn.com/abstract=2091210> or <http://dx.doi.org/10.2139/ssrn.2091210>

<sup>3</sup> *Id.*

<sup>4</sup> Colleen V. Chien, *Patent Trolls by the Numbers* (March 13, 2013), Santa Clara Univ. Legal Studies Research Paper No. 08-13. Available at SSRN: <http://ssrn.com/abstract=2233041> or <http://dx.doi.org/10.2139/ssrn.2233041>



It is important to clarify who PAEs are. There is an important and legitimate role for patent litigation as a means for inventors to protect their technologies. But we are not talking about those who legitimately seek to protect their inventions. Patent assertion entities are not inventors, innovators, manufacturers, or creators of any kind. They are, as Justice Kennedy described them, firms that “use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.”<sup>5</sup>

Many leading, innovative companies like ours are suffering losses due to unfair and abusive patent litigation that undercuts the fundamental objectives of our nation’s patent system. Randall Rader, Chief Judge of the United States Court of Appeals for the Federal Circuit, recently co-authored a New York Times op-ed describing the current state of the patent litigation system:

The onslaught of litigation brought by “patent trolls” — who typically buy up a slew of patents, then sue anyone and everyone who might be using or selling the claimed inventions — has slowed the development of new products, increased costs for businesses and consumers, and clogged our judicial system...

In the meantime, vexatious patent litigation continues to grind through our already crowded courts, costing defendants and taxpayers tens of billions of dollars each year and delaying justice for those who legitimately need a fair hearing of their claims.<sup>6</sup>

These “vexatious” plaintiffs, as Judge Rader calls them, “filed the majority of the 4,700 patent suits last year — many against small companies and start-ups that often can’t afford to fight back.”<sup>7</sup>

In 2012, PAEs initiated 62% of all patent litigation, up from 45% in 2011.<sup>8</sup> What is perhaps even more astounding is that these lawsuits are not limited to technology companies. In fact, PAEs sued more non-tech companies than tech companies in 2012.<sup>9</sup> PAEs are targeting retailers, automotive manufacturers, financial services companies, even funeral homes and bakeries!

Under the current system, with very little effort, expense, or risk, PAEs are able to bring a wave of patent suits against a large number of defendants. Companies have two very expensive options: settle or fight. The merits of the cases are often incidental because the suits impose great expense, internal disruption, and risk long before the merits of the cases are ever addressed. In this situation, most defendants choose to settle for some amount less than the cost of litigation, so the merits are never tried and PAEs move on to the next wave. But when cases are actually

<sup>5</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring).

<sup>6</sup> Randall R. Rader, Colleen V. Chien, and Dave Hricik, “Make Patent Trolls Pay in Court,” *The New York Times*, June 5, 2013.

<sup>7</sup> *Id.*

<sup>8</sup> Colleen V. Chien, Patent Trolls by the Numbers (March 13, 2013), Santa Clara Univ. Legal Studies Research Paper No. 08-13, Available at SSRN: <http://ssrn.com/abstract=2233041> or <http://dx.doi.org/10.2139/ssrn.2233041>

<sup>9</sup> *Id.*



decided in court, because PAEs so often assert weak patents, PAEs lose 92% of the time, compared to 60% for other plaintiffs.<sup>10</sup>

The above-described business model has proven to be very lucrative, leading to more and more PAE suits being filed. The situation has become a tax on legitimate business, and channels money away from real innovators.

The legal fees associated with responding to the cases are staggering. It has been reported that the mean total litigation costs are \$1.75 million for small- and medium-sized companies and \$8.79 million for large companies.<sup>11</sup>

Patent assertion entities created \$29 billion in direct costs in 2011 alone. That number does not factor in broader costs, which have been estimated at \$80 billion per year.<sup>12</sup> These broader costs include diversion of personnel and resources away from their normal functions, stock market reaction, and, most importantly, time and money spent fighting lawsuits that could be spent innovating, growing, and creating jobs. It is also important to note that these dollars are not ending up in the hands of small inventors. They are going to lawyers, and to large, publicly-traded PAEs whose profits depend on litigation outcomes.

The Innovation Act will help level the playing field by directly addressing abusive tactics that have been used by patent assertion entities to harass innovators. It will thereby help strengthen our patent system and restore its rightful place as the envy of the world.

#### **EMC's Experience**

EMC has substantial experience with lawsuits brought by PAEs. Since 2005, EMC has been sued by patent assertion entities more than thirty times, and has never been found to have infringed. As a matter of principle, EMC does not settle unmeritorious suits. To us, to do so would be tantamount to giving in to extortion. Yet defending against abusive litigation has cost us millions of dollars that could have been invested in growing our workforce or furthering innovation.

Before Congress passed the America Invents Act ("AIA") in 2011, PAEs usually sued EMC as one of many defendants in a lawsuit accusing disparate products. While the AIA guaranteed

<sup>10</sup> John R. Allison, *et al.*, *Patent Quality and Settlement Among Recent Patent Litigants*, 99GEO. L.J. 677, 694 (2011); see also Brian T. Yeh, Congressional Research Service, R42668, "An Overview of the 'Patent Trolls' Debate" 5 (2012).

<sup>11</sup> James E. Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes* (June 28, 2012), Cornell Law Review, Vol. 99, 2014, Forthcoming; Boston Univ. School of Law, Law and Economics Research Paper No. 12-34. Available at SSRN: <http://ssrn.com/abstract=2091210> or <http://dx.doi.org/10.2139/ssrn.2091210>.

<sup>12</sup> James E. Bessen, Jennifer Ford & Michael J. Meurer, *The Private and Social Costs of Patent Trolls, Regulation*, 26 (Winter 2011-2012); Patent Freedom, 2012, "Litigations Over Time," available at: <https://www.patentfreedom.com/about-npes/litigations/>; Robin Feldman, Thomas Ewing, & Sara Jeruss, *The AIA 500 Expanded: Effects of Patent Monetization Entities*, UC Hastings Research Paper No. 45, 7 (2013) available at SSRN: <http://ssrn.com/abstract=2247195> (patent monetization entities filed 58.7% of the patent lawsuits in 2012).

## EMC<sup>2</sup>

EMC the right to be heard in its own trial, PAEs still sue scores of companies in waves, and the cases are typically consolidated at least for pretrial purposes. EMC must still spend time, resources, and energy analyzing vague complaints that are directed at vast technology areas, with an EMC product—sometimes seemingly chosen at random—inserted in the complaint. It takes considerable time, expense, and effort to speculate what the plaintiff will argue infringes. And in the process we waste the time of our engineers—the lifeblood of our company—studying technical details of features that ultimately are not at issue in the case.

EMC must still coordinate with joint defense groups often consisting of 30 members or more to try to harmonize codefendants' disparate interests in key areas. In large part due to these coordination issues, EMC spends between \$100,000 and \$150,000 per month in outside legal fees for routine administration of a patent suit. And at the end of the day, notwithstanding the provisions of the AIA, EMC is still denied its own voice on critical issues such as claim construction, ordinarily being required to share briefing and pages with scores of co-defendants.

Once a case heats up with discovery, depositions, expert reports and Markman hearings, the fees are typically in the range from \$150,000 to \$250,000 per month, or higher. Added to this are expenses for outside vendors, experts, searching, etc. that may cost several hundred thousand dollars each. And even after defendants have developed their core technical positions, we face major internal disruption to our businesses; engineers need to be taken away from their normal busy schedules to assist in the defense of the case; and many employees are burdened with searching for documents, preparing financial analysis, and conducting surveys, etc. In short, defendants can easily spend several million dollars in two years and undergo considerable internal disruption, and all of this occurs often without even having a hearing on the merits of the case.

Moreover, the spate of lawsuits overwhelms the courts and impairs EMC's ability to be heard on a timely basis on key issues. In most of its cases, EMC is able to identify core, "silver bullet" reasons why EMC does not infringe, or why the patent is invalid. There is no mechanism to have these arguments heard at an early stage, and so EMC is required to spend millions defending a case that plainly has no merit. Even more problematic is the fact that issues that, even under current law, are supposed to be heard early in the case—such as motions to transfer or motions to dismiss for lack of standing—are being delayed, all because the courts are overwhelmed with the massive number of patent filings.

All of this increases the risks and costs for defendants—unfairly increasing the leverage of PAEs. The only certainty, unfortunately, is that EMC will be required to litigate for years and spend several million dollars if it wishes a resolution on the merits. Under current law, which requires that a case be "extraordinary" before attorneys' fees are awarded, EMC is rarely able to recover its fees spent during those years of litigation. PAEs use this fact to negotiate extortionary settlements, often based on the high cost of litigation. Indeed, some PAEs will negotiate scores of cost-of-litigation settlements with the majority of defendants, then simply dismiss the rest rather than proceeding with litigation. Although this tactic demonstrates the frivolous nature of the lawsuit, defendants rarely have any recourse against these PAEs.



Adding to the lack of certainty is the disparate approaches to discovery taken by judges across the country, abetted by the lack of uniform national patent rules. In a speech to the Eastern District of Texas Judicial Conference, Chief Judge Rader observed that discovery costs in intellectual property cases were almost 62% higher than in other cases.<sup>13</sup> Yet in a case brought by a PAE, these discovery costs are borne almost exclusively by defendants. PAEs typically have few documents and fewer employees. No matter how many discovery requests they are served, they can often simply produce all their documents in a single banker's box. There is a significant incentive for a PAE to try to drown a large company defendant in discovery requests, seeking to force its engineers, its IT department, and its legal staff to unearth tens of thousands of requested documents.

These burdens are unnecessary and unwarranted. In the same talk, Judge Rader observed that, based on one analysis, “.0074% of the documents produced actually made their way onto the trial exhibit list—less than one document in ten thousand.”<sup>14</sup> And “email appears even more rarely as relevant evidence.”<sup>15</sup> Yet despite the irrelevance of most documents produced in discovery, PAEs still use the threat of exorbitant discovery costs to increase the incentives for large companies to settle.

In short, the system as it exists today is highly skewed. PAEs have significant leverage in the form of the ability to increase risk and costs on the part of defendants. But they share no part of the risk, and little part of the costs. They are rarely held accountable for a defendant's attorneys' fees, even when the litigation they filed lacked any reasonable basis. Because they do not make any products or sell any services, they are rarely subject to counterclaims, eliminating a typical equalizer in most patent litigation between competitors. They may be thinly capitalized, rendering them judgment-proof in the event fees are awarded. And the real party in interest—usually a third party with deep pockets who funded the PAE in the first place, and who retains a “back end” in proceeds of the litigation—need not be disclosed, and typically may not be joined in the litigation. All the risk is borne by the defendants, and none of it by the PAEs. The Innovation Act addresses many of these core issues and will ultimately change the system for the better.

#### **The Innovation Act**

H.R. 3309, the Innovation Act, makes significant strides to address the most egregious and established abuses of the current patent litigation system. By taking a narrow focus on the problems plaguing the current system, the bill will help reinstate the balance and transparency necessary to ensure that the U.S. remains the most innovative and competitive country in the world. For purposes of my testimony, I would like to focus my attention on the subsections of the bill that are of particular relevance to EMC.

<sup>13</sup> Chief Judge Randall B. Rader, “The State of Patent Litigation” (E.D. Tex. Judicial Conference, Sept 27, 2011) (available at <http://www.patentlvo.com/files/raderstateofpatentlit.pdf>) at 7.

<sup>14</sup> *Id.* at 8.

<sup>15</sup> *Id.*





*Section 3(b).*

Of particular importance to EMC is the fee shifting provision in Section 3(b) of the bill. We believe that this provision embodies the simplest way to discourage the filing of frivolous and abusive suits by imposing financial accountability in the patent system. Under current law, EMC has found that judges almost never award attorneys' fees to the prevailing party. The Innovation Act makes awarding attorney's fees and other expenses the default rule, unless a party is substantially justified in its position.

As I mentioned earlier, PAEs have little to lose when they file meritless lawsuits. PAEs typically cannot be countersued for patent infringement because they do not make or sell any products or services. Also, PAEs do not have major discovery burdens because they have very few documents, and often they could be contained in a single box at a single location. Further, PAEs may have standard forms from previous waves of litigation on the same patent, so offensive discovery is usually very simple.

On the other hand, defendants face daunting expenses, typically on the order of \$150,000 to \$250,000 per month, for a total of \$3 million to \$10 million per patent case. Faced with this situation, it is little wonder that many defendants choose to settle and avoid further costs and disruption. Yet cost-of-litigation settlements only encourage more frivolous suits.

EMC has had more than its share of meritless patent cases filed against it. In one case, EMC was sued by a PAE where there clearly was no infringement. In spite of many protests by EMC, the case dragged on for well over a year and cost EMC more than \$1 million in legal fees. The plaintiff had nothing to lose, so it continued on until it finally concluded that EMC was never going to pay anything. Finally, the plaintiff dismissed the suit, but EMC was unable to collect any fees it had spent.

In another case, a PAE filed suit on a patent that had a restriction providing that if the patent was not co-owned with a second patent, it would not be enforceable. EMC spent several hundred thousand dollars before we determined that the two patents were not co-owned. The plaintiff immediately dismissed the suit, but we were not able to recover our fees and expenses. These are costs that would have been avoided if plaintiff had conducted a basic investigation before filing suit.

Fee shifting is an important step toward reducing frivolous litigation because it raises the stakes for PAEs that would file suits with little or no merit, and without doing extensive pre-filing investigations. If PAEs potentially face the prospect of paying the legal fees incurred by defendants, they would be much less likely to pursue meritless cases.

*Sections 3(c) and 4.*

Sections 3(c) and 4 of the bill, requiring disclosure of the real party in interest and permitting joinder of that party, are also important to EMC because they allow EMC to recover fees, and to file counterclaims, against the entity that is truly behind the lawsuit. PAEs are often shell companies, with another entity providing the financial backing for the case. That entity may



receive a “back end” in proceeds of the litigation. It may retain significant rights in the patent. It may be directing the litigation in the background. It may have granted licenses in the past, or committed to license its patents on reasonable and non-discriminatory terms.

This real party in interest should be required to be a party to the litigation. It should be liable for attorneys’ fees if it permits a meritless case to go forward. And it should be subject to counterclaims in the event the real party in interest is infringing claims of patents owned by the defendant in the litigation. These changes will give companies like EMC more leverage, leveling the playing field and bring more fairness to suits brought by PAEs.

*Subsection 3(a).*

Subsection 3(a) of the bill recognizes the need to strengthen the pleading requirements for patent infringement cases. Under current law, a patentee may file a complaint with sparse allegations that fail to provide any notice as to what products are being accused and precisely how they are alleged to infringe. The result is that PAEs sue scores of defendants without taking the time to study and analyze infringement comprehensively. They cast a broad net with very little if any pre-filing investigation.

Because PAEs do not specify the particular claims of infringement in detail, large companies with scores of products, each with hundreds of features, are left to guess as to what is being accused, and why. Meanwhile, PAEs seek to avoid being pinned down, keeping their infringement allegations vague until the last possible moment. This vagueness allows PAEs to extract cost-of-litigation settlements from defendants who cannot afford, or cannot risk, litigating a case whose core parameters remain in flux until the end.

While current law does not require the disclosure of infringement theories in a plaintiff’s complaint, Rule 11 does require that the plaintiff have conducted due diligence and arrived at a tenable, good-faith theory of infringement before filing suit. The bill’s heightened pleading requirement, therefore, imposes no new burden on diligent plaintiffs; they merely need to disclose the results of their required analysis. But the section will have a real effect on those plaintiffs who are not as diligent, barring them at the outset from filing suit where they have conducted no proper due diligence and ensuring that the plaintiff has in fact conducted an analysis, and that the plaintiff has a real basis for filing suit.

*Subsections 3(d) and 6(a).*

Subsections 3(d) and 6(a) together rationalize discovery in patent cases. Discovery has become a significant weapon in the arsenal of PAEs to try to extort cost-of-litigation settlements in meritless cases. Companies that sell innovative products and services are on uneven footing in litigation with PAEs, who have few documents and fewer employees. The costs of discovery are borne disproportionately by practicing entities such as EMC, and PAEs have little incentive to propound reasonable, targeted discovery requests. Instead, PAEs have an incentive to apply “scorched earth” techniques to force defendants to spend an inordinate amount of time and energy collecting and producing volumes of documents that are ultimately irrelevant to the merits of the case.



Recently, in one case, EMC received scores of broad, vague requests for documents—even though EMC had already produced the core technical documents that would demonstrate that EMC does not infringe. In another case, EMC produced its source code in an effort to prove that it did not infringe. Yet the plaintiff insisted that EMC spend additional time and money to provide an annotated version of its source code to convince the plaintiff of EMC's position—even though it was the plaintiff, and not EMC, that bore the burden of proving infringement. This sort of experience is typical.

Such discovery requests and responses are wasteful. In patent cases, an early ruling by the judge construing the claims of the asserted patent is often case-dispositive. The plaintiff's infringement theory may rely on a particular interpretation of a claim term, or a defendant may place significant emphasis on a prior art reference that is only within the scope of the claims under a particular construction. And in any event, before the court construes the claims, it is often difficult to know what the theories of infringement or invalidity will be.

Subsection 3(d), therefore, sensibly limits discovery before the court issues its claim construction ruling to only discovery that bears on claim construction issues. This will help prevent wasted effort by either eliminating the need for discovery entirely (where, for example, the court's claim construction order effectively resolves the case), or at minimum by focusing the parties on truly relevant discovery, which can only be known after the court has told the parties how the claims will be interpreted.

Subsection 6(a) further ensures that the technical discovery that does take place will be tailored to the issues that actually matter, and that the costs of inefficient "fishing expeditions" will be borne by the party serving the discovery request. In a patent case, very few documents are relevant to the core issues in the case. Such documents are ones that bear on the patentee's ownership, any prior art known to either party, and technical documents sufficient to show how the accused features work at the level of detail addressed by the claims. Documents beyond this tend to be both irrelevant and expensive to produce. As Judge Rader recognized, this is especially true for emails, whose attenuated relevance is vastly outweighed by the inordinate costs associated with searching for, reviewing, and producing them.<sup>16</sup> By requiring the requesting party to cover the costs of extraneous discovery, section 6(a) will limit the extent to which PAEs can use discovery costs as a bargaining tool in settlement negotiations.

#### *Section 5.*

Section 5 of the Act, which provides for a customer suit exception, is important to EMC, both as a manufacturer and as a customer. Product manufacturers are no longer the primary target of PAEs. When the President signed the AIA into law in 2011, we had already begun to see PAEs bringing suits not only against companies such as EMC, but also our customers. However, this seems to have reached a new height over the past year with virtually every economic corner of our country being a potential target for a demand letter or patent suit. These customer lawsuits

<sup>16</sup> Chief Judge Randall B. Rader, "The State of Patent Litigation" (E.D. Tex. Judicial Conference, Sept 27, 2011) (available at <http://www.patentlyo.com/files/raderstateofpatentlit.pdf>) at 8.



are inefficient for our judiciary, as they increase the number of lawsuits filed exponentially. They are also bad for our economy: (1) they increase PAEs' revenues by allowing them to profit from more cost-of-litigation settlements than they would get if they sued the single manufacturer; (2) they artificially inflate damages by allowing PAEs to point to downstream profits (incorporating customers' added value) rather than the true value of the accused product as recognized by the manufacturer; (3) they impair manufacturers' relationships with their customers, increasing the pressure on the manufacturer to provide a payment that is untethered to the value of the patent, but which may be necessary to preserve business relationships; and (4) they target companies or individuals who do not have a vested interest in or knowledge about the accused technology, and therefore are far more likely to pay a nuisance settlement.

Section 5 of the Innovation Act attempts to ease some of the burden of frivolous patent litigation brought against end users by providing that a manufacturer can intervene on behalf of and stay a case against a customer. EMC applauds this provision. When EMC products are accused of infringement, EMC's customers frequently approach EMC and request indemnification. In instances where EMC provides indemnification, the ability to force the PAE to litigate a single case against EMC, which will resolve the issues in the customer cases, is crucial. Without a strong provision such as this one, EMC could conceivably be required to pay not only its own attorneys' fees defending against frivolous litigation, but also the fees of each of its customers. This is a plainly untenable situation, particularly where a single lawsuit could resolve all the major issues in each of the customer lawsuits.

Likewise, when EMC is a customer and is accused of infringing someone else's product, it makes little sense for EMC to be required to litigate about a product the company is not responsible for and knows little about. The real defendant is the manufacturer, and there is little to be gained—other than unfair leverage for a PAE—to proceeding against EMC.

### **Conclusion**

In conclusion, EMC believes that patent litigation reform is an effort whose time has come. Litigation brought by PAEs is exacting a major toll on EMC and on similarly situated companies. Failure to act on the abuses of the litigation system has resulted in the problem growing worse, with more industries falling prey to the tactics of the PAEs. We believe that this legislation, together with Sen. Cornyn's Patent Abuse Reduction Act (S. 1013), is essential to protecting America's position as the most innovative nation in the world. Both on behalf of EMC and also on behalf of the innovative industries and small businesses that form the economic core of our country, I applaud the Committee for its work on this bill, and I ask that Congress act swiftly to enact this important legislation.

Mr. GOODLATTE. Thank you, Mr. Gupta.  
Mr. Kramer, welcome.

**TESTIMONY OF KEVIN T. KRAMER, VICE PRESIDENT AND DEPUTY GENERAL COUNSEL INTELLECTUAL PROPERTY, YAHOO! INCORPORATED**

Mr. KRAMER. Chairman Goodlatte, Ranking Member Conyers, Members of the Committee, thank you for inviting me to testify today.

Yahoo! shares your interest in reducing patent litigation abuse and promoting American innovation. And we applaud your leadership and we support the Innovation Act.

I am honored to have the opportunity to offer my perspective as Yahoo!'s lead IP attorney and based on my previous experience as a trial attorney in private practice and the USPTO.

Yahoo! is an Internet pioneer and serves over 800 million users worldwide today. Our success is due, in no small part, to our continual innovation. We hold over 1600 U.S. patents. And we have enforced those patents when we felt the need to do so.

Clearly, we believe in the patent system and we believe patents have a positive role to play in society. But here is the bottom line: abusive patent litigation practices by patent trolls are harming our business and harming our industry.

This has a cost. For Yahoo! the money effort and time that we spend could be more productively spent elsewhere developing new products, investing in equipment and creating jobs. We believe that common sense reform, like measures proposed in the Innovation Act, would make significant strides to restore the desired balance between protecting intellectual property and discouraging patent litigation abuse.

Yahoo!'s experience highlights how the system is now out of balance. Between 1995 and 2006, Yahoo! faced between two and four patent cases on its docket at any given time. Since 2007, we've seen a tenfold increase in the number of cases on our docket at any given time. And the merits of those cases has declined. In about 96 percent of all cases filed against Yahoo! in the last 6 years, the plaintiffs fail to identify a patent claimant issue and they fail to identify the features of our products at issue. So, instead we have to guess what the cases are about when they're filed.

Requiring more genuine notice pleading would make cases more efficient for everybody. In most cases we're required to produce hundreds of thousands of document before the court construes the patent claims at issue. Most of the cost of production could be avoided by simply staging discovery after claim construction, since that is the most pivotal point in most cases. In our experience, less than 1 percent of all documents are actually used in the cases. Placing presumptive limits on discovery would help to avoid that needless cost.

In many cases we face shell corporations as plaintiffs. Those entities exist only to litigate. Yet, when it comes time to discuss settlement, we are routinely told that the investors and partners, who are not named plaintiffs, need to approve. Joining those with a financial interest in the patent or the litigation will help curb that abuse.

When we do prevail at trial, it's next to impossible to recover our attorney's fees. For example, we were sued by a patent troll called Bright Response, their patent was based on a provisional application which conceded that the claimed invention had already been in public use more than 1 year prior to the filing date of the application. That is, by its own admission the patent was invalid, yet Bright Response pursued trial and charged ahead. And the jury found both the patent invalid and not infringed. However, despite the exceptional nature of that case, the District Court refused to award our attorney's fees. And we believe that clarifying the standard for attorney's fees, in Section 285, would discourage abusive cases like that. The thoughtful, balanced provisions in the Innovation Act would address all these problems.

Our options for less expensive alternatives to litigation are limited or come with drastic consequences. For example, both the inter partes review and patent post grant review apply estoppel to all issues that could have been raised before the PTO, potentially erasing our ability to defend ourselves in court. And the current covered business method program is limited in scope to only those patents used in the practice, administration or management of financial product or service. We look forward to working with this Committee on these issues.

I should note that, while Yahoo! has the wherewithal to defend itself, patent trolls know we're not going to try every case. Particularly where nuisance-level settlements are available. But, we're not alone. Settlement rates in our industry are at about 75 percent. That high settlement rate only feeds the troll model and leads to more troll litigation.

We do our part, we try cases when we have to, we act as a friend of the court in others, and we act responsibly when selling our patents. Our policy has been to sell patents only to operating companies, rather than to non-practicing entities. We do not want our patents to be obtained by a troll and irresponsibly asserted against others in our industry.

We believe that comprehensive common sense reforms are needed, only Congress can make those reforms. We think the Innovation Act is on the right track. It would streamline cases from the start, prioritize important decisions, reduce costs, force real parties in interest into the litigation, and clarify when winning defendants are able to recover their fees.

Again, I thank you for the opportunity to be heard. We look forward to working with you. And I welcome your questions.

[The prepared statement of Mr. Kramer follows:]

IMPROVING THE PATENT SYSTEM TO PROMOTE AMERICAN  
INNOVATION AND COMPETITIVENESS

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HEARING  
BEFORE THE  
COMMITTEE ON THE JUDICIARY  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED THIRTEENTH CONGRESS

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OCTOBER 29, 2013

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Testimony of  
Kevin T. Kramer  
Vice President and Deputy General Counsel  
Intellectual Property  
Yahoo! Inc.

Written Testimony of  
Kevin T. Kramer,  
Vice President and Deputy General Counsel  
Intellectual Property  
Yahoo! Inc.  
Before the House Committee on the Judiciary  
“Improving the Patent System to Promote American Innovation and Competitiveness”  
October 29, 2013

Chairman Goodlatte, Ranking Member Conyers, and members of the Committee, thank you for convening this hearing and for inviting me to testify today about reducing the impact of abusive patent litigation on American innovation, job creation and economic growth. Thank you also for listening to so many innovators and entrepreneurs, and addressing so many of our concerns and recommendations in the excellent legislation you have put forward.

Today I will address our experience at Yahoo with patent assertion entities and some of the common sense reforms that we think would make a difference. In particular, I discuss below the proposed reforms related to clarifying when prevailing parties can be awarded attorneys’ fees, establishing presumptive limits on discovery, requiring heightened pleading, identifying the real-parties-in interest and joining them to the litigation, and limiting discovery pending claim construction in cases.

First, a little bit of background about me and about my company.

Introduction

Yahoo was one of the early pioneers of the World Wide Web and today serves more than 800 million Internet users around the world. We are a global technology company focused on making the world’s daily habits inspiring and entertaining. We provide a variety of products and services, many of them personalized, including search, content, and communications tools—all daily habits for hundreds of millions of users, on the Web and on mobile devices. The majority of our product offerings are available in more than 45 languages in 60 countries.

Yahoo is a founding member of The Internet Association, a trade group representing the fastest growing sector of the US economy—the Internet. Through The Internet Association, we have been working with fellow Internet companies to discuss abusive patent litigation and its harm to the economy with the public and local businesses. Internet companies have been disproportionately targeted by Patent Assertion Entities or “PAEs,” which many refer to as “patent trolls.” Through The Internet Association, we have built a consensus on common sense legislative solutions to eliminate the unfair burden PAEs place on our economy.



The Internet community looks to the members of this Committee and the Congress to act now on bipartisan legislation to remove this great economic burden from the Internet industry and other hard working businesses in your districts.

I came to Yahoo in 2009 to run intellectual property litigation after many years in private practice litigating patent cases. Prior to that, I litigated cases for the US Patent and Trademark Office as a trial attorney in the USPTO Solicitor's Office. I also previously worked at the World Intellectual Property Organization helping to administer the Patent Cooperation Treaty.

As a patent litigator, I understand the need for companies and individuals to assert their intellectual property rights in a responsible and respectful manner in order to protect their investments in innovation. However, I believe that the current system is being abused. I'm here today to tell you about Yahoo's experiences with Patent Assertion Entities and why Yahoo believes that changes are needed to restore balance to the system and discourage abuse.

#### Our Experience With Patent Litigation Abuse

First, let me make clear that Yahoo believes in patents and the patent system. We believe that patents have a positive role to play in society: they promote innovation, encourage investment, enable entrepreneurship and facilitate employment. In fact, we currently have over 1,600 issued United States patents, a substantial portion of which cover software-related inventions. We invest millions of dollars every year in research, development and innovation to advance the technology that underpins our services and the Internet. Our patents help protect that investment against the unauthorized use of our inventions by competitors. Simply put, we value our patents, participate in the system, and generally believe that the patent system works well for its intended purpose.

However, the current patent litigation system is out of balance. Growing and systematic abuse has led to increasing waste, inefficiency and unfairness. The historical trend of litigation illustrates the problem well. For example, from 1995, when Yahoo was founded, through 2006, Yahoo had between two to four defensive patent cases on its active docket at any given time. In stark contrast, since the beginning of 2007, Yahoo has had between 20 to 25 cases on its active docket at any given time. That is a tenfold increase in patent litigation.

This dramatic increase in patent litigation is not unique to Yahoo. Patents covering inventions applicable to the Internet are litigated nine times more often than other types

of patents.<sup>1</sup> Accordingly, the dockets of many of our peer companies in the Internet industry have dramatically risen in the last six years.

Along with the increase in numbers, Yahoo has seen a decrease in the substantive merits of the cases filed against it. A few examples help to illustrate the point. In one case, brought by a patent troll called Bright Response, the patent-in-question described ways to process incoming electronic messages, such as emails and voice messages. However, Bright Response overstretched the meaning of its patent claims and accused Yahoo's paid search advertising of infringement. Moreover, the asserted patent was based on a provisional application which explained that the claimed invention had already been in public use more than one year prior to the filing of that application. Thus, the patent, by its own admission, was invalid, yet Bright Response pursued the case all the way through trial anyway. Needless to say, Yahoo prevailed as the jury found the patent both invalid and not infringed. In another case brought by a patent troll called Eolas, Yahoo was successful in obtaining a jury verdict of invalidity of two asserted patents, only to see Eolas continue to assert those same patents against others in the Internet industry.

In yet another case, brought by a patent troll called Portal Technologies, the patent described a method for easily updating the information on a public kiosk. However, Portal overstretched the meaning of its patent claims in an attempt to cover the My Yahoo product, which offers personalized web pages for individual users and is the exact opposite of a public kiosk. Finally, in a case brought by a patent troll called API, the patent disclosed a computerized method for conducting automobile diagnostic tests, yet API overstretched the meaning of the claims in an attempt to cover Yahoo's application programming interfaces. We decided to settle both the Portal and API cases because of the expected costs of defense.

In our view, these types of cases should never have been brought in the first place. They are attempts to overstretch the scope of patent claims or knowingly assert invalid patents. As such, they are not substantially justified and impose a needless burden on the courts, our company, and our industry.

That burden is heavy. For example, every time a complaint is filed against Yahoo, it typically takes about two years to resolve and costs several million dollars. If the case actually goes to trial, it typically lasts at least another year and costs several million dollars more. All of this time and money represents lost opportunity. The time and money spent defending against abusive patent litigation could be more productively spent on jobs, on new products, equipment, or other investments.

The high cost of patent litigation means that settlement is almost always the least costly option, and the patent trolls know it. In fact, according to a study by Lex Machina,

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<sup>1</sup> John R. Allison, Emerson H. Tiller, Samantha Zyontz, Tristan Bligh, *Patent Litigation and the Internet*, STANFORD TECH. L. REV. 3: 7 (2012).

approximately 75% of these cases settle, so the trolls know they have a virtually guaranteed payoff, for virtually no upfront investment or preparation. They have lawyers on contingency. They function without office space or overhead, and operate with very little in the way of investment or cost. As a result, they tend to be very profitable. Because they are profitable, more and more entrants are drawn into this business model, and more and more cases are being filed.

Without reform, our patent litigation docket will likely increase further over time, increasing costs and decreasing our ability to devote our time and money to more productive uses, such as jobs and investments in new products and equipment.

#### The PTO's Role in Reform

One idea that is typically discussed as part of the patent reform debate is the notion that improving patent quality will solve the problem. While improving patent quality is a worthy goal, it will not solve the problem, particularly for software patents and the Internet industry. The reason is that software development is an iterative, ongoing, evolutionary process that takes place on laptops, desktops, and servers around the world. And that work typically does not find its way into patents or printed publications that the examiners at the PTO can easily access. As a result, the hard-working examiners at the PTO will never have all of the art needed to comprehensively examine every software patent application.

Consistent with this reality, the law already recognizes that the PTO is not omniscient and never will be. In fact, the Patent Act provides that issued patents are entitled only to a presumption of validity and gives defendants the ability to challenge patent validity in the context of patent infringement cases.

Any attempt to cure the problem of abusive patent litigation should recognize that the PTO cannot do everything and that it should not be expected to, particularly with respect to the Internet industry.

#### Companies Have a Role to Play

One issue that does not get discussed as much as it should is the role that defendants play in the system, particularly large corporate defendants who are often the target of patent troll litigation. What can companies do themselves to help resolve the problem of abusive patent litigation?

Yahoo does several things to shape the landscape as best that it can. First, we defend ourselves zealously and try cases when we must. For example, we have had four trials in the Eastern District of Texas in the last five years. We have been fortunate to win

three of those cases at trial and win the other on appeal. But we cannot try all of the cases that are brought against us.

Second, we look to participate as a friend of the court in other significant cases before the United States Court of Appeals for the Federal Circuit or the United States Supreme Court. We hope that explaining our history and experience in patent troll cases will help shape the development of the law in a positive way.

Third, we act responsibly when prosecuting our own patents before the USPTO. We do not believe that every minor incremental advancement is a patentable invention because, in our experience, software engineers are highly skilled people whose very job it is to solve problems and advance the art. As a result, we have pursued fewer applications than we otherwise might have and published more papers instead.

Finally, we act responsibly when selling patents. Our policy has been to sell patents only to operating entities rather than to non-practicing entities. We do not want our patents to be obtained by a troll and irresponsibly asserted against others in the Internet industry.

But this is a slow and inefficient way to solve some of the problems with the patent litigation system. More comprehensive, common sense reforms are needed to bring balance to the system, particularly reforms that enable companies to more easily defend themselves from abusive litigation.

#### Common Sense Reform Is Needed

We believe that Congress is best positioned to make a meaningful difference by instituting several common sense reforms that level the playing field and bring greater transparency into patent litigation.

On this front, we are extremely encouraged by Chairman Goodlatte's bipartisan bill, which contains most, if not all, of the reforms that we have been advocating for the past year. Thank you and your colleagues for your efforts and your straightforward approach to addressing a significant problem.

In addition, we know that many members of this committee have introduced thoughtful legislation, all of which seek to remedy a real problem. Please know that we very much appreciate your attention and the effort.

We think the Innovation Act is right on track with proposals that bring more balance and transparency to the system. In particular, we would like to highlight the proposals regarding attorneys' fees to prevailing parties, establishing limits on discovery, requiring heightened pleading, transparency regarding the real-parties-in interest and joining those parties to any litigation, and limiting discovery pending claim construction.

### 1. Clarify When Prevailing Parties Can Recover Fees

Perhaps the most beneficial thing Congress can do to bring balance to the system is to clarify the fee-shifting provision that exists in current law. We appreciate the Innovation Act addressing this important issue.

The concept of fee-shifting is not new or radical. In fact, the Patent Act has included fee-shifting in Section 285 since 1952. The current standard for awarding fees is that the case must be “exceptional.” However, pursuant to case law, winning defendants must typically prove that a losing plaintiff’s case was both objectively baseless and brought with bad faith. As a result of this very strict two-prong standard, it is nearly impossible for winning defendants to recover their attorneys’ fees. In fact, it has been reported that winning defendants recover their fees in less than one percent of cases.<sup>2</sup>

A good illustration of how difficult it is for winning defendants to recover their fees is the case that Bright Response brought against Yahoo. In that case, the provisional application on which the patent was based admitted that the claimed invention had been in public use more than one year before the filing date of the application. Therefore, the patent was invalid. Any responsible plaintiff should have conducted its due diligence prior to filing and understood this basic defect in the patent. In our view, Bright Response’s assertion of that patent was not justified and the case should have been considered exceptional given this admission in the provisional application. Despite the fact that the jury quickly invalidated the patent on the ground of public use, the district court denied Yahoo’s request for attorneys’ fees under the strict two-prong standard that has evolved for determining whether a case is exceptional.

Because that standard is so difficult to satisfy, and because winning defendants rarely are awarded their fees, the current statute presents an insignificant restriction on troll litigation and how it is conducted. Without that threat of fees, there is no disincentive for plaintiffs to file weak cases or, worse yet, bring weak cases to trial. Congress providing clarity as to when courts should shift fees will force patent plaintiffs to act more responsibly during litigation and when contemplating whether to file suit at all.

### 2. Establish Presumptive Limits on Discovery

There is no dispute that discovery is a vital part of the legal process. However, discovery without limits is susceptible to abuse. Because placing sensible, presumptive limits on discovery will help level the playing field of litigation between patent trolls and corporate defendants, we support the Innovation Act’s provisions on this point.

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<sup>2</sup> According to LegalMetric, a company providing statistical analyses of federal court cases, attorney fees are granted in only about 1% of all patent cases that are filed, with plaintiffs (typically the patent owners) being almost twice as likely as defendants (typically the accused infringers) to win a contested fee motion.

Our experience in patent cases may help to shed light on why presumptive limits are necessary. In a typical troll case, we are asked to provide *hundreds of thousands of pages of documents*, including emails from *anyone* with relevant information, their attachments to those emails, such as word processing documents, spreadsheets, and presentations. The processing of that electronically stored information costs money, and for typical defendants, the more information processed for discovery, the more costly given both processing fees and time for attorney review. Despite all of this cost and production, emails and their attachments do not typically describe how our products perform or why. As a result, in the four trials that we have had, relatively few emails or electronic documents get introduced as exhibits. Certainly, in my experience, *less than one percent* of the electronic documents that get produced actually get used at trial.

In contrast, in the typical case, what is needed to assess whether a Yahoo product infringes a patent claim is the source code for that product or feature at issue. In fact, in each of the three trials where our infringement was at issue (one trial only covered invalidity of the plaintiffs' patents), our source code was a central part of the case.

As a result of this experience, it makes practical sense to presumptively limit discovery in the first instance to core documents. In fact, we applaud the prior effort of the United States Court of Appeals for the Federal Circuit on this point. That court had previously issued a model order that district courts could use to help alleviate the burdens in troll litigation by placing presumptive limits on discovery.

In addition, we believe that it makes practical sense for the Judicial Conference to develop rules that will allow for additional discovery "if such party bears the reasonable costs, including reasonable attorney's fees, of the additional document discovery" as proposed in the Innovation Act. Such rules should help to encourage all parties in litigation to act more responsibly by focusing the case on those things that matter to the outcome of the litigation.

### 3. Require Genuine Notice Pleading

Another meaningful reform would address the insufficient complaints that are filed in patent cases, and we support the Innovation Act's provisions on this point.

Again, our experience may help to shed light on the problem. More often than not, when a complaint is filed against Yahoo, we are left guessing as to the scope of the case. Since 2007, 70 patent cases have been filed against Yahoo. A review of those complaints reveals that only 11 of these cases -- just 16% -- identified the asserted claims of the patents. Because patent claims are what is infringed, and not patents, it is insufficient to identify only the asserted patent and not the asserted claims of that patent. Furthermore, although 52 of the complaints against us identified at least one accused product, only 21 identified the accused feature within the product that was alleged to have infringed. Because asserted patents are typically much narrower in

scope than one of our products, such as Yahoo Sports, Finance or News, the relevant information is the accused feature, and that is only provided about 30% of the time. Finally, only three patent complaints against us since 2007 provided both asserted claims and accused features of products. Thus, only in about 4% of our cases do we have genuine insight at the pleading stage into what those cases are about. In the other 96% of cases, we must guess.

But guessing has its consequences. Without knowing the asserted claims and the accused features of products, it is very difficult for us to begin to defend ourselves. For example, it is difficult to identify potentially relevant witnesses in order to institute hold notices to prevent inadvertent document destruction. It is difficult to determine what the potential non-infringement arguments might be in any given case. Without knowing, we need to wait months down the road until sometime during discovery when plaintiffs are required to provide infringement contentions or expert reports in order to learn what the case is really about. Accordingly, not providing the necessary information at the beginning of a case in the complaint slows down the litigation and makes it inefficient and expensive for both parties.

There is no reason that patent plaintiffs cannot be more detailed in their complaints and identify both asserted claims and the accused features of the defendants' products at issue. Right now, Rule 11 of the Federal Rules of Civil Procedure requires plaintiffs to conduct adequate pre-filing investigations prior to filing complaints. These investigations should include a comparison of the asserted patent claims to the accused products. Given that plaintiffs typically do this work anyway, it is not a burden to require more than bare-bones pleading in a patent complaint.

In fact, complaints filed in the International Trade Commission under Section 337 are often very detailed, including the identification of asserted claims and a detailed comparison of those claims to the features of the products at issue. If complainants before the ITC can plead patent cases with particularity, there is no reason not to expect the same from plaintiffs in district court cases.

Further, we believe that filing a complaint comes with a social responsibility. When filing, plaintiffs are asking the levers of government to act on their behalf, including judges, juries, clerks, and administrative staff. Plaintiffs absolutely have the right to come to court seeking justice for their perceived injuries. However, they should be fully prepared when they do so and be fully encouraged to focus the litigation from the outset. In the patent context, this means providing more than just simple notice that they have a patent and there is a lawsuit. Rather, as proposed in the language of the Innovation Act, this means "identification of each claim" of the patent allegedly infringed, and "identification of each accused apparatus, product, feature, device, method, system, process, function, act, service, or other instrumentality ... alleged to infringe the claim."

We believe that these common sense proposals in the Innovation Act will help to streamline litigation, and therefore, they deserve our support.

#### 4. Require Transparency of Ownership: Identification of, and Joinder of, The Real-Parties-in-Interest

In most cases, a defendant goes to court knowing who is on the other side. In stark contrast, the PAE model is such that a patent defendant often does not know, beyond the name of a shell corporation plaintiff, who has an interest in the litigation and the patent at issue. Yet this is knowledge that will inform decisions around every facet of a case, including key decisions such as when and whether to settle a case.

Again, our experience plays a role in our viewpoint on this issue. In several cases, settlement has been complicated by the “investors” or “partners” that had a financial interest in a litigation against Yahoo. This often comes to light during mediation or settlement talks when a plaintiff reveals that it cannot accept a lower offer because it would not satisfy unnamed investors in the endeavor. Transparency into the ownership stakes in a patent or in the plaintiff would help to avoid these issues and help to ensure that the parties at the bargaining table are the ones with the power and authority to settle the litigation.

Further, it is worth noting that a patent is a government grant. Like real property or any other government grant, it is reasonable to expect that the government’s records disclose who owns that right. If anything, the expectation should be greater in patent cases given the ability to enforce that right through litigation and the strict liability for infringement.

Finally, there is a fundamental fairness about transparency of ownership that should be considered. In any case, a defendant should be entitled to face their accuser. Absent transparency of ownership, and the ability to join real-parties-in-interest to the litigation, a patent defendant may not have that opportunity.

For these reasons, we support the proposals in the Innovation Act to require the disclosure of those who own a financial stake in the patents in lawsuits and the plaintiffs in those lawsuits, as well as those proposals which allow courts to join interested parties such as assignees, those who have a right to enforce or sublicense, and those with a direct financial interest in the patent or patents at issue.

#### 5. Limit Discovery Pending Claim Construction

Finally, another area where Congress can bring meaningful reform is in the staging of events in patent cases. In particular, we support the Innovation Act’s proposal to presumptively limit discovery pending claim construction.



Claim construction represents a decisive point in most patent cases. Once the court construes the claims at issue in the case, the parties have much more clarity as to the issues and the arguments to be litigated, if any. In fact, claim construction can and often is determinative of the issue of infringement. To this point, Yahoo has had numerous cases resolved either on summary judgment or through outright voluntary dismissal by the plaintiff after the district court has issued claim construction.

Given the potential impact of claim construction, it is only logical that it take place early in the case and before any unnecessary discovery is required. In fact, several of our cases have already adopted this type of a schedule, including several that had been filed in the Western District of Texas. The Innovation Act would simply encourage that this common sense approach be adopted more broadly.

Appropriately, the proposal in the Innovation Act allows the district court discretion to expand the scope of discovery when necessary upon motion by a party. Thus, the district court judges would have the flexibility to broaden the scope of discovery during the claim construction phase when the facts of the case warrant. Accordingly, we believe that the proposal in the Innovation Act presents a balanced approach.

#### 6. Additional Comments

Our options for a less expensive alternative to litigation are limited or come attached with drastic consequences. Both Inter Partes Review and Post Grant Review apply estoppel to all issues that could have been raised before the PTO -- potentially erasing the ability to defend a district court action. We applaud the Innovation Act's inclusion of the estoppel correction to the America Invents Act.

The Innovation Act's common sense approach to some of the most vexing legal issues facing American companies represents a tremendous step forward. We look forward to working with you as this bill moves through the legislative process, particularly with respect to the standard for construing claims in PTO proceedings and expanding the scope of the PTO's Covered Business Method review program, which is limited in scope to only those patents used in the practice, administration or management of a financial product or service. We look forward to working with Congress on these issues.

#### Conclusion

Thank you again to the Committee for your ongoing leadership in promoting American innovation, and for your time today discussing how to reduce meritless patent litigation and restore needed balance to the system.

The bottom line is that abusive practices by patent trolls are harming our economy and the innovation ecosystem. To make the entire system work better we understand that we in the industry need to do our part, but some common sense reforms are needed to make progress in resolving the problem. Only Congress can advance these reforms.

America's intellectual property system and innovative companies need action swiftly. Without reform the problem will not stay the same; the trends show it will only get worse. More cases will be filed, and more resources will be required to defend them -- resources that would be better spent innovating new products or developing new services.

The Innovation Act would make significant strides to restore the desired balance between protecting intellectual property and discouraging abuse. It provides common sense reforms that level the playing field of patent litigation and allow for the level of transparency that both defendants and the courts deserve. We encourage its enactment into law and look forward to working with you as this bill moves through the legislative process.

Mr. GOODLATTE. Thank you, Mr. Kramer.  
Mr. Kappos, welcome.

**TESTIMONY OF DAVID J. KAPPOS, PARTNER,  
CRAVATH, SWAINE & MOORE LLP**

Mr. KAPPOS. Chairman Goodlatte, Ranking Member Conyers, Members of the Committee thank you for this opportunity to provide my views on H.R. 3309.

I'm testifying today solely on my own behalf.

Let me start by congratulating you, Mr. Chairman, on introducing H.R. 3309, a bill designed to improve our strong patent system by removing litigation loopholes that debase strong patent rights. Various provisions of this legislation can achieve that objective, given refinement. Other provisions, as I'll explain, will require a bit more substantial deliberation or would be best deferred.

Before turning to H.R. 3309, the most important point I'll make today is that Congress simply must ensure full funding for the USPTO. Less than 2 years after passage of the AIA, we found ourselves again, this year, looking at an agency having its lifeblood drained away. I cannot overstate the destruction this is causing as the work remains without the funding to handle it, creating an innovation deficit that will require future generations of innovators to pay into the agency again and again. Nor will it be possible for USPTO to accomplish the mandates of the AIA, much less the added responsibilities contemplated by H.R. 3309, without access to its user fees.

In this regard, I thank Ranking Member Conyers, Ranking Member Watt and Representatives Issa and Collins for their introduction, just yesterday, of the Innovation Protection Act, designed to ensure full funding of the USPTO.

Mr. Chairman, given the importance of U.S. innovation-based industries rooted in an innovation ecosystem that's the envy of the world, substantial alterations to this ecosystem must be undertaken with caution. Caution in turn calls for a deliberative process that reaches out to all stakeholders. Many innovators, today's Edisons, have not had the time to make their views heard yet.

Now, Mr. Chairman, I do believe that a number of the provisions of H.R. 3309 can reduce litigation costs and increase the value of legitimate patent rights for American innovators. But, I also believe that significant further work is necessary to avoid major negative consequences of over correction. Consequences more harmful potentially than the problems the legislation is intended to address.

Now, turning to key provisions of H.R. 3309: fee shifting, real-party and interest disclosure, litigation procedure, and joinder are good policy. As most of these provisions directly impact the work of judges, it bears emphasizing that further effort is needed to ensure that judges are not deprived of their ability to exercise judgment. Consideration should be given to reducing prescription to a minimum and tasking the judiciary with turning legislative guidance into court precedent.

For covered business methods: the right course, in my view is to let Section 18 settle in further. The courts are in the best position to review USPTO interpretation of covered business method and

technological. The provision is certainly not being interpreted too narrowly thus far.

Intention and extension of Section 18 to software-related inventions should be avoided. Such an overextension devalues innovation implemented in software, one of America's most important and innovative sectors, discriminating against a critical field of technological innovation. The U.S. is home to a software industry that dazzles the world and we should not declare software innovation any less important than other kinds of innovation.

H.R. 3309's stay provision, offering protection to innocent end users and retailers is also good policy. But also there a number of improvements are needed.

Finally, a covered customer will almost never be in precisely the same situation as its covered manufacturer, when you're talking about the stay provision. That is because a covered customer cannot be expected to be bound in all respects by a judgment against its covered manufacturer. There are many different circumstances effecting the two parties. As a result, parties will find themselves embroiled in more, not less, litigation caused by this provision, unless clarity is added to it to avoid this result.

In conclusion, Ranking Member Conyers, Representative Watt, thank you for recommending me to testify today.

Mr. Chairman, thank you again for this opportunity to share my thoughts. I commend you for introducing H.R. 3309.

[The prepared statement of Mr. Kappos follows:]

STATEMENT OF  
**DAVID J. KAPPOS**  
**PARTNER,**  
**CRAVATH, SWAINE & MOORE LLP**  
BEFORE THE  
**COMMITTEE ON THE JUDICIARY**  
**U.S. House of Representatives**  
**H.R. 3309 Innovation Act**  
**OCTOBER 29, 2013**

**Introduction**

Chairman Goodlatte, Ranking Member Conyers, and Members of the Committee:

Thank you for this opportunity to provide my views on H.R. 3309. I am testifying today solely on my own behalf.

Innovation continues to be a principal driver of our country's economic growth and job creation. An efficient and balanced patent system centered on strong patent protection, delivers that innovation to the marketplace. Recalling a 2012 study by the Economics and Statistics Administration and the USPTO, IP-intensive industries accounted for 40 million jobs, or 27.7% of all jobs in the US economy, in 2010. According to that same study, IP-intensive industries accounted for over \$5 trillion in value added, or 34.8% of US GDP in 2010.

Given the enormous size and importance of US innovation-based industries, rooted in an innovation ecosystem that remains the envy of the world and unequalled in all of human existence, substantial alternations to this ecosystem must be undertaken with extreme caution. Innovation, based on strong IP rights, is quite literally the goose laying our golden egg.

Let me start by congratulating you Mr. Chairman, on introducing H.R. 3309, a bill designed to improve our strong patent system by removing litigation loopholes that debase strong patent rights. Various provisions of this important legislation can achieve that objective, given further discussion and refinement as is always necessary to perfect complex legislation. Other provisions, as I will explain below, will require more substantial deliberation, or would best be deferred.

H.R. 3309, Mr. Chairman, writes on a page whose ink is barely dry. The America Invents Act was signed into law barely 2 years ago. Its major provisions are just getting underway. And while the AIA was unquestionably pro-innovator legislation, its post-grant challenge provisions also unquestionably shifted the balance of rights toward implementers and away from patent holders. The only remaining question, brought on by the adolescence of the AIA, is – just how much has that balance shifted?

Before turning to H.R. 3309, the most important point I will make today – the most important by some wide margin – is that Congress simply *\*must\** ensure full funding of the USPTO. Less than 2 years after passage of the AIA and all the accompanying focus on USPTO user fee diversion, we found ourselves again looking at an Agency having its lifeblood, the user fees that come with all the work asked of USPTO by American innovators, drained away. I simply cannot overstate the destruction this is causing, as the work remains without the funding to handle it, creating an innovation deficit that will require future generations of innovators to pay into the Agency again in hopes their fees can actually be used to undertake the work for which those fees are paid. Nor will it be possible for the USPTO to accomplish the mandates of the AIA, much less the added responsibilities contemplated by parts of H.R. 3309, without access to the user fees calculated to meet those challenges. The USPTO is making progress in improving examination rigor, patent quality, and reduction of its backlogs. But none of this will continue, and backsliding is inevitable, unless full user fee access is provided to the Agency. Full fee access must be job one.

At the outset of considering further changes to our patent system, we must recognize that the time constant of the patent system – the period between new patent application and court decision on a patent infringement claim – is very long. Many years. As such, the impact of Congress' very recent major change to our patent system has barely begun to be felt. In such long time constant situations, every engineering instinct and every leadership instinct tells me: proceed with caution.

Moreover, in long time constant systems such as our patent system, over-correction is a major danger. By the time an over-correction is apparent, it will be years after the system is badly damaged. And we are not tinkering with just any system here; we are reworking the greatest innovation engine the world has ever known, almost instantly after it has just been significantly overhauled. If there were ever a case where caution is called for, this is it.

Caution in turn calls for a deliberative process that takes the time to reach out and listen to all stakeholders, including those who will not be the fastest ones off the mark. Many small innovators – today's Edisons – have not had time to make their views heard. Others having various levels of dependence on strong IP rights are just now beginning to consider the prospect of further changes to our patent system. We need to allow these important stakeholders their time to participate.

Caution also calls for us to ask: is the building on fire? Do we have an emergency that requires immediate action? No. The building is not on fire. As the recent Government

Accountability Office report found, patent assertion entities (also known as non-practicing entities) are \*not\* driving patent litigation, and broad new legislation to constrain patent assertion entities is not needed. And why the much-cited spike in patent litigation in recent years? In fact, it is entirely attributable to the joinder restrictions included in the AIA. When normalized for the effects of the AIA, patent litigation rates show no significant change in recent years. And what of those dire reports from some scholars claiming fantastical losses of hundreds of billions of dollars to the US economy attributable to “patent trolls”? Other equally credible scholars deeply question the methodology used and the applicability of the economics. Simply put, there is no fire.

I will also register my disagreement with those who frame the problem in terms of “patent trolls” or the slightly doctored “non-practicing entities”. Attempting to label and then discriminate based on identity is bad policy, or worse. The problem must be framed in terms of actions and behaviors, enabling us to identify behaviors that fall outside appropriate bounds and then prohibit or regulate those behaviors.

Finally, when contemplating changes to any critical legal system, it is important to bear in mind two terminal questions: does a successful “fix” require 100% elimination of the problem, and is collateral damage acceptable as a cost to achieve this?

Three points apply in answering these questions. First, where innovation is concerned, success and failure very much happens at the margins. So even a small change in the underlying system – changing the margins – can have a major impact on actors in the system. Second, where profit-seeking behavior in a capitalist system is concerned, there is tremendous overlap between actions that can be deemed acceptable in one context, versus unacceptable in another. So it is impossible to categorically define either bad actors or bad acts. And third, collateral damage in this case means both damaging the US innovation engine – which despite its imperfections continues to outpace all others – and forgoing new lifesaving treatments and new products that enrich our lives, which but-for the disincentives appurtenant to fixing the troll problem, would have been created and brought to market. Put differently, who among us would be comfortable standing by the bedside of a suffering loved one, and explaining that while their disease goes uncured, they should be happy there are no more trolls filling inappropriate lawsuits?

Given the above, it is clear that the goal cannot be perfect elimination of abusive patent litigation – that is not necessary nor possible nor appropriate. What is needed is light touch adjustments. We can expect such adjustments to have significant impact on the problem, with less risk of straying into over-prescription that will negatively impact legitimate actors and actions.

Mr. Chairman, I believe that a number of the provisions contained in H.R. 3309 have the potential to improve our patent litigation processes, reduce litigation uncertainties and costs, and increase the value of legitimate patent rights for American innovators. But, I also believe significant further work is necessary, and I reiterate my note of caution. Input is needed from key stakeholders on the provisions of H.R. 3309. A careful and deliberative process is needed to avoid major negative unintended and unanticipated

consequences of over-correction – consequences more harmful than the problems the legislation is intended to address.

My thoughts on some of the most critical provisions of H.R. 3309 are as follows:

**Fee Shifting, Real-Party in Interest Disclosure, Litigation Procedure, Joinder**

Subject to the comments above, all of these provisions of H.R. 3309 represent good policy. With further refinement, they can cut wasteful expense for all parties in patent infringement disputes.

Appropriately calibrated fee shifting will help discourage frivolous suits. Enhanced disclosure of real-party in interest information will improve transparency of patent ownership and thus efficiency for all participants in the patent system. Higher pleading standards regarding claims allegedly infringed and products allegedly infringing will prevent unnecessary expense, as will case management that focuses early discovery on claim interpretation as a gateway to determining what other discovery will be required. Discovery generally can be contained better by requiring the requestor to pay for discovery beyond the basics.

As most of these provisions directly impact the work of judges, it bears emphasizing that further effort is needed on H.R. 3309 to ensure judges are not deprived of their ability to exercise judgment – based on knowledge of applicable facts, context, and case-specific details. Indeed, the opposition to the litigation procedure provisions voiced by the Judicial Conference is well-taken. In this regard, consideration should be given to reducing prescription to a minimum, and tasking the judiciary with the detailed work needed to turn broad legislative guidance into properly calibrated court procedure.

H.R. 3309's litigation reforms should also be further examined for their impact on legitimate patent holders, including independent inventors and startups. The heightened pleading requirements may make sense for defendants as well as plaintiffs, so that allegations of invalidity and non-infringement are backed up with the same level of detail that will be required for allegations of infringement. Fee-shifting may benefit from greater flexibility to account for situations where the prevailing party engages in conduct that drives up litigation expense or is otherwise untoward. And consideration should be given to the situation where a mom-and-pop-shop is confronted with a valid but narrow patent, exposing them to the risk of paying millions of dollars for the patentee's legal expenses in addition to an otherwise inconsequential judgment. The possibility of parties opportunistically litigating on the other side's dime cuts both ways.

The purpose of the joinder provision is clearly laudable: ensuring those who are ultimately accountable can be held accountable. But the provision as drafted is confusing and overbroad, apparently assuming standing well beyond that actually provided in the law, and requiring joinder well beyond parties truly accountable for frivolous patent assertions. And as a matter of fairness to all parties, defendants using clever facades to avoid payment of fee awards should be held to account just as surely as plaintiffs. Given



all these problems, the joinder provision needs to be rethought to ensure it meets its purpose without significantly overreaching.

Finally, as regards fee-shifting, we now have the U.S. Supreme Court reviewing two pertinent cases on certiorari from the Federal Circuit. As we saw with the discussions leading up to the AIA, the courts can and do interpret the laws to resolve thorny issues. It would be no surprise to see the same transpire in these cases, and that prospect should be taken into account.

#### **Amendment to AIA Section 18 – Covered Business Methods**

Section 18 of the AIA was designed for the very special and singular purpose of creating a limited-time opportunity to challenge certain patents covering methods of doing business. I have always supported this provision as good policy and good practice – recognizing that many patents had been granted before important guiding court decisions like *Bilski*, and before the courts’ and the USPTO’s increased focus on claim scope and claim clarity under Section 112, and that those patents covering methods of doing business also inherently cover all technology solving the affected business problem.

Section 18 has been in-effect for about 13 months – far too short a period of time to judge its effectiveness. While over 70 CBM proceedings have been filed to date, only one has run fully to conclusion. This should come as no surprise, as the AIA itself calls for these proceedings to run at least 15 months. Indeed, Congress recognized that some time would be required before Section 18’s effectiveness could be measured, and wisely called for a study of Section 18 (along with the other post-grant procedures of the AIA) in September 2015.

In taking an early “temperature reading” on Section 18 so far, I would say it is slightly over-achieving its intended purpose. Encouraged by the legislative record leading to enactment of the AIA, USPTO interpreted the critical terms “covered business method” and “technological” broadly, and indeed, a slightly greater number of the procedures have been granted so far, versus what was expected. If the first decision – the *Versata* case – is to be taken as an indicator, operating companies concerned about defending against overbroad business method patents must surely be taking comfort, as the Patent Trial and Appeal Board in that case found the claims entirely unpatentable despite that a district court had previously found the same claims valid and infringed, awarding a judgment in excess of \$400M. And the USPTO significantly over-achieved in terms of the time to decision in that case, completing it in well under a year from initiation.

Indeed, the interpretation of the critical terms “covered business method” and “technological” were broad enough in the Versata decision that many are asking whether the interpretation was overbroad. But in fairness to all, terms like “technological” and “business method” have proven exceedingly difficult – perhaps impossible – to define categorically. The Europeans have struggled for decades with these terms, and the US courts have as well.

With all of the above in view, I believe the best balance between discretion and valor in this situation is to let Section 18 settle in further before modifying it. The courts are in a much better position than Congress to review the USPTO’s interpretations of “covered business method” and “technological”, and through the time-tested case-based model, gradually refine those important definitions. The provision is certainly not being interpreted too narrowly thus far. It is premature to legislate a standard for “covered business method” or “technological”. Congress wisely avoided doing that just over two years ago, and there is no reason to abandon that wise approach now. Let the other two branches of government do their work for awhile.

Similarly, it is simply too early to say whether Section 18 needs to be made permanent. The provision was intended from the beginning to act as a bridge to more settled law. There is no reason at this early stage to depart from that view.

Finally, and most importantly, extension of Section 18 to software-related inventions generally should be clearly avoided. Such an over-extension carries several negative consequences: it devalues innovation implemented in software – one of America’s most important and innovative sectors; it overtly discriminates against a critical and growing field of technological innovation, likely in violation of our treaty obligations; and it reneges on the balance between the AIA’s numerous post-grant provisions. Why in the world would we, the country that is home to the world’s most dynamic software industry – an industry that dominates and dazzles the world – want to tell ourselves and the world that we’ve decided software innovation is less important than other kinds of innovation? America remains the world’s \*destination\* for software innovators – they come here to grow their ideas and their companies because America loves software innovation. We would send a terrible policy message by turning Section 18 of the AIA to take aim at America’s software industry and our software innovators.

It may be that some of the amendments contemplated in H.R. 3309 for the AIA’s Section 18 will prove advisable. But it is too early to say that now. And there certainly is no data supporting amendments now that reverse wise policy decisions made by Congress barely two years ago.

#### **Stays of Litigation for Covered Customers**

H.R. 3309’s provision offering protection for innocent end-users and retailers of products and services from patent infringement claims represents good policy. Too often these parties become pawns in patent infringement disputes properly brought between patentees and product manufacturers or service providers. Substantial litigation resources

can be saved for many parties by enabling innocents to stay patent infringement claims against them where manufacturers and service providers are willing and able to step in and handle claims.

A number of improvements to the language of the Bill are needed, however, to ensure against abuse and unintended consequences. First, as currently written the stay provision permits all parties in the product channel downstream of the first component part maker to escape infringement liability, including large commercial actors such as manufacturers combining procured components into value-added completed devices, as well as assemblers, and others not operating in the roles of “mere retailers” or “mere end users”, and certainly not operating in the roles of “mom and pop shops”. This unnecessarily devalues intellectual property and thus innovation by artificially limiting or even eliminating legitimate patentees’ ability to protect their innovations. It also may leave an American innovator with no infringer at all to pursue where infringing manufacturers are located outside the reach of the US courts, such as overseas, or lack adequate assets to answer for infringement.

Second, further work is needed to specify the level of commonality needed between claims in order to trigger the right to stay, and to define “covered manufacturer” and “covered customer”, to avoid significantly disrupting settled relationships between many commercial suppliers and their commercial customers, with parties jockeying for more or less indemnity coverage than is otherwise obtainable under existing contract law.

Third, further effort will be needed to avoid creating a donut hole in the patent law where a downstream party (a “covered customer”) is the direct infringer of a legitimate patents claim, while the upstream “covered manufacturer” is an indirect infringer. Under current law, this common scenario would put the patentee in the catch-22 of having to prove direct infringement as a prerequisite to showing indirect infringement, without having access to the information needed to make out its case for direct infringement.

Finally, this provision aptly illustrates the adage “the devil’s in the details” and the need for a deliberative process—both of which counsel against rushing. A “covered customer”, however defined, will almost never be in precisely the same situation as its “covered manufacturer” such that it would be appropriate for a covered customer to be fully and simply bound in all respects by a judgment against its covered manufacturer. Instead, one party will almost certainly have different license agreements in place that will affect defenses to infringement, or will have been put on notice at a different time than the other. For these or any other of the myriad of ways parties are almost never in precisely the same position, legitimate patentees, covered manufacturers, and covered customers will all find themselves embroiled in more, not less litigation. To avoid this result, more clarity will be needed around binding parties to litigation outcomes of others.

I am optimistic that all of these issues can be addressed with further input from a broad range of stakeholders and with further deliberation. But as with any complex set of issues, multiple rounds of input will be required, first-order and second-order effects will need to be considered at each round, and patience will be a premium asset.

**Moving USPTO IPR and PGR Proceedings to District Court Standard of Claim Construction**

H.R. 3309's mandate for USPTO to move from its current claim construction standard of "broadest reasonable interpretation" to "ordinary and customary meaning to one of ordinary skill in the art" during post-grant proceedings carries pros and cons. I mention it not to support or oppose the provision, but to ensure there is clarity as to the implications. On the one hand, the speed mandated for post-grant procedures is leading to greater interaction between court interpretations and USPTO interpretations of the same patent claims, and having the USPTO apply a different standard than the courts is leading, and will continue to lead, to conflicting decisions. Moving the USPTO to a consistent standard with that of the courts would resolve such conflict. On the other hand, because the patentee has the ability to amend claims during post-grant processes in the USPTO, the Agency is justified in applying a broader standard. This broader standard requires patentees to define their claims clearly over the prior art during proceedings in the Agency, which is undoubtedly in the best interests of the public.

So while this provision presents valid arguments on both sides, it is critical for this Committee to understand that moving the USPTO to the district court "ordinary and customary meaning" standard will invariably force the USPTO to endorse and issue broader and more generally defined claims in important post-grant proceedings (excepting Section 18, which is excluded from the provision) – the very same kinds of claims that form the basis of inappropriate assertions this legislation is aimed at reducing. Thus, while the provision may make sense on balance, it must be appreciated that it cuts in the opposite direction from the stated purpose of this legislation.

**Conclusion**

Mr. Chairman, thank you again for this opportunity to share my thoughts. I commend you for introducing H.R. 3309, the Innovation Act, aimed at improving and strengthening the American patent system.

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Mr. GOODLATTE. Thank you, Mr. Kappos.  
Mr. Armitage, welcome.

**TESTIMONY OF ROBERT A. ARMITAGE,  
IP STRATEGY AND POLICY CONSULTANT**

Mr. ARMITAGE. Thank you, Chairman Goodlatte, Ranking Member Conyers and Members of the Committee. I do appreciate the opportunity to appear before the Committee this morning.

Before getting to the nitty-gritty of the specific patent litigation reform topics, I would like to underscore the point that has already been made several times today on the importance of full funding to a well-functioning patent system.

With this in mind, I want to offer a special thanks to Ranking Member Conyers, Members Watt and Collins for their work on this issue, particularly 3349, a bill that was introduced yesterday. While I've not had the opportunity to study the bill into detail, my hope is that this will be the decisive step forward to permanent action on fixing PTO funding issues.

I'd like now to move on, if I could, to discuss a few of the important provisions of Section 9 of H.R. 3309. First, Section 9 would specify that the new post grant review system, created under the America Invents Act, must use the same standard for construing what a patent covers in assessing the validity of the patent that the courts use when the courts are determining patent validity in a patent infringement action.

The USPTO, under its current rules today, is placing inventors in an untenable situation. The same patented invention that may be found invalid by an administrative patent judge in the Patent Office would, at the same time, be found potentially valid by a District Court judge determining that same issue of patent validity. These opposite outcomes can arise solely because the administrative patent judge is permitted, under PTO regulations, to use an artificial standard of claim interpretation, one that stretches the meaning of the claim beyond any subject matter that the patent owner could ever hope to assert would infringe the claim in the patent infringement litigation.

Fixing this claim construction disparity, opens the door to securing broader support for another provision in Section 9, a provision that would correct the AIA's broad estoppel against later challenges to the same patent in a post grant review procedure. The Section 9 estoppel fix corrects an inadvertent legislative drafting error in the AIA. Indeed, without this correction the AIA's new post grant review procedure is almost certain to be underutilized and the important benefits that this procedure can bring to the patent system, by removing questionable patents, would be lost or at least significantly impaired.

Another important reform in Section 9 relates to the so-called double patenting doctrine. The bill offers a codification of this judge-made law for the new first inventor to file patents that will soon begin to issue under the AIA. In a nutshell, this provision will assure that when two patents are issued with highly similar claims they cannot be independently enforced against an accused infringer.

In my written submission I've suggested that there are other issues that relate to the AIA that merit inclusion in H.R. 3309. In the interest of time, let me briefly mention only two of them.

First, the Committee should consider including a statutory research-use exemption to patent infringement that would replace an antiquated judge-made doctrine. The common-law standard today is overly sparse and sometimes inconsistent in its application. Second, the AIA has opened the way for the Committee to remove the last vestige of secrecy in the patenting process by mandating publication of all patent applications 18 months after they're initially sought.

This brings me to a few final points on the provisions of H.R. 3309 that relate most directly to patent litigation. Like Mr. Gupta and Mr. Kramer, I would like the Committee to move with a sense of urgency to get a comprehensive patent reform bill through the House and on to the Senate. Like, Undersecretary Kappos, I'd like to see the Committee act with deliberation with a 360-degree vetting of each of these provision to assure that the details of statutory information don't destroy the promise of the underlying reform.

As with many issues of life and patent reform, some of the most promising initiatives at a conceptual level may prove problematic to make work as intended. I'd like to mention, perhaps, just one of these. The stay of discovery provision in the bill would indeed—as convincingly, I think, set out in the testimony today—provide an effective and efficient vehicle for rapidly eliminating non-meritorious infringement allegations. Critics of that provision wonder whether perhaps it has the potential to deny justice by delaying it or even increasing the aggregate cost of securing it. I'd ask the Committee to be careful in provisions where one size appears to fit all patent lawsuits. Indeed this same concern relates to Section 6 of the bill that would mandate the judicial conference to implement very specific rules and procedures.

In conclusion, I believe the case is made today, in the testimony that I've heard and I've read, that patent reform should proceed in this Congress. The bill now before the Committee has jumpstarted the process. I believe it's positioned the Committee to make decisive progress in crafting a refined legislative package in the days and weeks ahead.

Thank you for the opportunity to be here this morning.

[The prepared statement of Mr. Armitage follows:]

Statement of  
Robert A. Armitage

Before

The United States House of Representatives

Committee on the Judiciary

On

“H.R. 3309, Improving the Patent System to Promote  
American Innovation and Competitiveness”

10:00 a.m.  
October 29, 2012  
2141 Rayburn House Office Building

Chairman Goodlatte, Ranking Member Conyers, and Members of the Committee:

Mr. Chairman and Ranking Member Conyers, my name is Robert Armitage. I am pleased to have this opportunity to testify on H.R. 3309, a bill “To amend title 35, United States Code, and the Leahy-Smith America Invents Act to make improvements and technical corrections, and for other purposes.”

***Background – Reforms Finished, Reforms Unfinished***

My last appearance before the Judiciary Committee was on May 16 of last year, as part of an oversight hearing on the implementation of the AIA.<sup>1</sup> In my appearance before the committee, I emphasized the enormous debt of gratitude the patent community owes to this Committee and its Subcommittee on Intellectual Property, Competition, and the Internet, for its prodigious efforts in the 112<sup>th</sup> Congress that led to the enactment of the AIA. It is difficult to find the words fully adequate to describe the overall importance of this seminal contribution to our patent laws.<sup>2</sup>

The Committee’s patent work in the 112<sup>th</sup> Congress was completed with the enactment of an important and useful set of technical corrections to the AIA.<sup>3</sup> The corrections bill has simplified the AIA-related work remaining for this Congress. It has set the stage for dealing with a host of substantive reform topics that have now found their way into H.R. 3309.

It was only on March 16 of this year that the AIA was fully implemented as the law of the land. Given the relentless work of the Committee and its staff dealing with

<sup>1</sup> See <http://judiciary.house.gov/hearings/Hearings%202012/Armitage%2005162012.pdf>.

<sup>2</sup> See Robert A. Armitage, *Understanding the America Invents Act and Its Implications for Patenting*, AIPLA Q.J. 40:1, 133 (2012) [[http://www.uspto.gov/aia\\_implementation/armitage\\_pdf.pdf](http://www.uspto.gov/aia_implementation/armitage_pdf.pdf)].

“The America Invents Act has made many significant changes to the patenting landscape in the United States. It is a giant step toward a more transparent patent system, where a person skilled in the technology of a particular patent and knowledgeable in patent law can review a patent, reference only publicly accessible sources of information, and make a complete and accurate assessment of the validity of the patent. At its core, the AIA seeks a more objective patent law, where subjective issues like an inventor’s contemplations or a patent applicant’s intent bear no relevance to any issue of validity or enforceability of the patent. It is a patent law that, in many situations, may require no discovery of the inventor to determine if a claimed invention is patentable.

“Congress took bold steps to reach these goals. The ‘loss of right to patent’ provisions were all repealed. The ‘best mode’ requirement was made a functional dead letter. All references to ‘deceptive intention’ were stripped from the patent law. A new ‘supplemental examination’ procedure was instituted to address any error or omission in the original examination of a patent and bar the defense of patent unenforceability once the procedure has run to completion. Finally and most dramatically, it concisely limited ‘prior art’ on which the novelty and non-obviousness of a claimed invention was to be assessed. Nothing can qualify as prior art absent representing a prior public disclosure or an earlier patent filing naming another inventor that subsequently became publicly accessible—casting aside 175 years of a more complicated, subjective, and uncertain standard for patenting.

“Thus, without question, *transparent, objective, predictable* and *simple* are four words that should come to describe the hallmarks of the new patent law arising from this historic legislative achievement. Those four words suggest a fifth that appears to be equally apt. *Remarkable*.”

<sup>3</sup> Pub. Law 112-274, 126 STAT. 2456 (Jan. 13, 2013), Leahy-Smith America Invents Technical Corrections.



reforms to the patent system, work that has continued almost without interruption over the past eight years, it would be understandable if the Committee determined that 2013 should be a time of rest and repose, rather than a time for pursuing a concerted agenda of further reforms.

However, the work of bringing much needed reforms to U.S. patent law is unfinished business. That this Committee has decided to return in earnest to the subject of patent reform is encouraging to those of us who believe that the U.S. patent system as a whole needs to operate much better than it does today to serve the interests of innovators and for innovation to drive the creation of new products, new services, new industries and new jobs.

Given its work over the past several years, this Committee has a sobering understanding of the challenge presented by any effort at perfecting and enacting meaningful reforms to something as ancient and complex as the U.S. patent system. I, for one, applaud the Committee and the Committee staff for their efforts in reaching out to the competing interests that must be balanced in crafting changes to the patent laws and addressing forthrightly the difficulties that are inevitable in forging progressive and meaningful compromises.

***Patent Litigation – Taking Too Long, Costing Too Much, Too Much Unpredictability***

At its core, a patent system is a property rights system. When the enforcement of those rights takes too long, costs too much, and ultimate success on the merits is far too unpredictable, these delays, costs and uncertainties can undermine, if not eliminate, any economic rationale for seeking patents.

If patents are sought, these litigation deficiencies can render patent rights effectively unenforceable, especially against an accused infringer determined to make a patent infringement action as expensive and protracted as possible. Patents that might have been a foundation for investment in the development of new technology either do not exist or, if they have been obtained, fail to operate as a basis for securing the capital that might be needed to get an invention to market.

The situation is, of course, no better when the tables are turned and it is an accused infringer, not the patent owner, who faces an untenable situation in the courts. If the only way to establish an infringement allegation is without merit requires an excessively prolonged, unreasonably expensive and at best uncertain litigation path, surrender – rather than vindication – can be the only economically sensible patent forward. Abandoning investments already in the ground because an effective defense to a patent infringement charge would be uneconomic, or paying needless tribute under a patent lacking in any inventive merit, runs contrary to the constitutional mandate that patents exist to promote progress in the useful arts.

As a forty-year patent practitioner, I have come to the conclusion that patents as property rights demand patenting processes and standards that are as transparent,

objective, predictable and simple as possible. These attributes define a patent system capable of being efficiently and effectively administered by the United States Patent and Trademark Office. The same attributes are the hallmark of a patent system that – when patents are litigated – enables the patent litigation to proceed to conclusion relatively rapidly, relatively inexpensively and with highly predictable outcomes.

If the above description accurately sets out the requisites for how a well-functioning patent system would operate, then it is far too soon to put boldness aside in addressing the unmet reform needs of the U.S. patent system. Even in the aftermath of the AIA, profound reform measures need to remain on the legislative table. And, of course, a certain persistence is needed. Patent reform involves many constituencies with diverse interests and perspectives. The devil in crafting workable reforms – that achieve their intended consequences – often lies in the complex details of a complex law.

#### ***H.R. 3309 – Discussion Drafts Have Helped to Define a Multi-Part Reform Agenda***

The Committee process leading the H.R. 3309 has encouraged a much-needed discourse on what the focus of further patent reforms in this Congress should be. The Chairman's May 23 and September 6 "Discussion Drafts" have put the patent community to work,<sup>4</sup> especially on the topic of patent litigation reform. The Committee's process has assured that a broad spectrum of inputs have been available – and will continue to be available – for the hard work ahead of augmenting and refining H.R. 3309 as the current bill as it moves through the Committee.

While H.R. 3309 is focused to a significant degree on addressing patent litigation issues, as with many issues in life, an ounce of prevention is truly worth of pound of cure. If I were limited to making just one plea to the Committee on how best to deal with patent litigation reform it would be to return to what I believe to be the critical foundational issue for the U.S. patent system – the operation of the United States Patent and Trademark Office.

#### **1. USPTO Financing – Overarching Priority for Patent Reform**

In spite of significant work in the last Congress – and vital contributions made by members of this Committee – issues with the financing of the United States Patent and Trademark Office remain unresolved. I do not wish to overwork the Benjamin Franklin adage, but an ounce of prevention in the USPTO would easily leverage into a kiloton of cure when it comes to patent litigation reform issues.

The story is a sad and recurrent one when it comes to the USPTO financing during the two-year period post-enactment of the AIA. In the aftermath of the AIA, the USPTO began an impressive effort at building the new capabilities that it would need to meet its new responsibilities under the AIA. Its efforts not only included enhancing its human resources, but an upgrading of its infrastructure, especially its IT infrastructure.

<sup>4</sup> See [http://judiciary.house.gov/news/2013/05232013\\_5.html](http://judiciary.house.gov/news/2013/05232013_5.html) linking to the text of the bill at <http://judiciary.house.gov/news/2013/05232013%20-%20Patent%20Discussion%20Draft.pdf>.

These efforts were integral to assuring that a complete, prompt, and high quality work product by the Office becomes a consistent norm.

With the Office's inability during the just-ended fiscal year to access all of the fees collected from the users of its services, momentum has been lost, opportunities have been squandered, and realization of much needed capabilities has been deferred.

Coming in the immediate aftermath of the enactment of the AIA, this was the most unfortunate time imaginable to endure yet another chapter in the continuing story of a USPTO that is inconsistently resourced and, more tragically, left unable to deliver on long-range plans to upgrade its operations.

If H.R. 3309 is to reach its promise as a full-throated reform of the U.S. patent system – and to specifically target issues with patent litigation brought based on patents perceived to have little or no merit – then nothing should be prioritized higher on the Committee's patent reform agenda than finding the mechanism that would assure that user fees are consistently made available to the Office.

## **2. National Academies' Recommendations – Completing the Work**

In the same sense that a high-functioning USPTO would go a long way towards addressing concerns over patent litigation, I would urge the Committee to consider other structural reforms to the patenting process that have not yet found their way into H.R. 3309. Section 9 of H.R. 3309 focuses on a number of laudable steps towards further transparency, predictability, and simplicity in the operation of the U.S. patent system.<sup>5</sup>

That said, there are several additional measures that are ripe for Committee consideration. In the main, these measures would bolster or otherwise complement H.R. 3309 reforms. In each case, these added measures that would require relatively concise and targeted changes to Title 35. They include the following four items:<sup>6</sup>

- *Enact an exception to patent infringement for "research uses" of a patented invention.* Two National Academies reports have recommended a statutory clarification of the common law doctrine permitting research on a patented invention to be undertaken in order to better understand how an invention works and its properties and characteristics. The codification would be directly responsive to recent concerns expressed by the Supreme Court that granting patent rights can be in conflict with the ability to conduct basic research into

<sup>5</sup> I would be remiss not to note *en passant* that § 6(d) of H.R. that provides protection of licensees in the case of bankrupt licensors. This should protect those who have invested in a new technology in part on reliance on their legal rights to do so. It is another laudable component of the bill that, as best I can tell, has generated neither concerns nor controversy.

<sup>6</sup> Appendix A to this testimony contains a more complete discussion of these four items and the rationale for including them as part of a comprehensive package of patent reforms. The appendix contains other possible improvements to the U.S. patent system that would be relatively more complicated to include in the current legislative process, but that may merit consideration as the next Congress looks for opportunities to continuously improve the patenting process.

important new discoveries. Finally, it would eliminate the potential for assertions of patent rights were a competitor were doing nothing more than seeking to understand a patented invention in order to develop alternatives to it or improvements of it.<sup>7</sup>

- *Remove the exception to mandatory publication of pending patent applications at 18-months after the initial patent filing.* This exception had a policy justification under the old first-to-invent standard of pre-AIA patent law. That policy justification applying to first-to-invent patents is turned on its head in the post-AIA, first-inventor-to-file world. Under pre-AIA law, an inventor's patent application, once published, could be effectively hijacked by someone claiming (falsely or not) to be the "first inventor." Under the AIA, the publication of pending patent applications at the 18-month mark does just the opposite. For first-inventor-to-file patents, the publication guarantees the first inventor to file for a patent the right to a patent the published invention (if otherwise patentable) and bars anyone else from securing a patent on the same or similar subject matter. Moreover, the inability to publish a pending patent application in a timely manner means that it may be unavailable for the USPTO to cite as "prior art" against other pending patent applications, *e.g.*, the later-made patent filings of an inventor's competitors. When that happens the Office may be obliged to issue a competitor's conflicting patent that ultimately cannot be sustained as valid. Thus, there is a double benefit from mandatory publication of pending patent applications under the first-inventor-to-file law. It solidifies protection for the inventor whose application publishes and allows the USPTO's examination of later-filed patent applications of competing inventors to be more complete and more accurate.
- *Complete the repeal of the "best mode" requirement.* The "best mode" requirement was eliminated from U.S. patent law in all but a formal sense under the AIA. Congress eliminated this requirement in determinations of patent validity given its inherently subjective nature and the lack of any supportable policy justification for its continuation in the patent law. Two separate recommendations of the National Academies urged its elimination. However, in the process leading to the final enactment of the AIA, the requirement was allowed to remain formally in the statute. The anomaly of leaving it in the statute, but eliminating its impact otherwise, has not only been ridiculed by patent commentators, but remains an unnecessary impediment to the United States taking a leadership role in international patent harmonization designed to

<sup>7</sup> A "research use" exemption could be readily enacted by adding a 35 U.S.C. § 271(j):

"(j) EXPERIMENTAL USE. —The acts described in subsections (a) and (g) shall not extend to making or using a claimed invention for experimental purposes in order to discern or discover—

"(1) the patentability or validity of the claimed invention and the scope of protection afforded thereunder;

"(2) features, properties, inherent characteristics or advantages of the claimed invention;

"(3) methods of making or using the claimed invention and improvement thereto; and

"(4) alternatives to the claimed inventions, improvements thereto or substitutes therefor."

showcase U.S. patent law as the “best practices” model for the rest of the world to follow.

- *Confirm congressional intent in enacting the AIA that prior art used to determine whether inventions are new and non-obvious can consist of and only of publicly accessible subject matter or patent filings that thereafter become public accessible.* Some commentators have simply ignored the House Report on H.R. 1249 (112<sup>th</sup> Congress) which indicates that the words that follow “in public use or on sale,” namely the phrase “or otherwise available to the public,” create an overarching requirement for public accessibility in order for subject matter to become “prior art” to a claimed invention. The contrary contention is that the words, “in public use ... or otherwise available to the public” should be construed to mean both public and *nonpublic* uses. As bizarre as this possibility sounds, a needless (albeit essentially meritless) controversy over this important new provision in the AIA now exists that could be fully put to rest with a simple amendment to the AIA, *i.e.*, by deleting the words “in public use or on sale” from § 102(a)(1) of the patent statute.

When the AIA was being considered, these reforms were supported by leading proponents of patent reform, the American Intellectual Property Law Association, the Intellectual Property Law Section of the American Bar Association and the Coalition for 21<sup>st</sup> Century Patent Reform. Given that H.R. 3309 will be another major effort at improvements to the U.S. patent system, it would be unfortunate if these items were not given due consideration as part of the current reform effort.

### 3. Topics That May be Neither Ready Nor Ripe for Committee Consideration

There are other desirable reforms consistent with the aims of H.R. 3309 that merit some brief discussion, but do not appear ripe for action as part of the current reform process – given that it is hopefully set to move swiftly through to completion. First, it remains highly desirable for Congress to address the prior user defense found in 35 U.S.C. § 273. I last testified before this Committee on the issue of the need to expand prior user defense on February 1, 2012<sup>8</sup> before this Committee. I concluded my testimony with a plea to my colleagues in the non-governmental sector to develop the needed consensus on the desirability of moving forward with efforts to see them enacted.

No consensus on this issue has yet emerged, at least to my knowledge. In discussions that have taken place since the 2012 hearing, there remain reservations within the university community on the wisdom of providing a more complete and effective “prior user rights” provision. Given the existing law enacted as part of the AIA was the result of a carefully crafted compromise in which the university community was represented and participated, it remains premature to make the needed changes to 35 U.S.C. § 273 described in my 2012 testimony.<sup>9</sup>

<sup>8</sup> See <http://judiciary.house.gov/hearings/Hearings%202012/Armitage%2002012012.pdf>.

<sup>9</sup> Section 3(b)(2)(B) contains an amendment striking § 273(f) and § 273(g) from title 35. These provisions were added to title 35 as part of the American Inventors Protection Act of 1999, not the AIA. Unless the

One additional AIA-related issue merits some mention, but again is unripe for consideration by the Committee given the lack of any consensus on a path forward. Part of the move to the first-inventor-to-file system produced unprecedented concessions to the university community to preserve patentability in situations where the inventor has published on an invention before seeking a patent on the published invention.

As a result of these and other inventor-friendly features of the AIA, inventors seeking patents under the AIA's first-inventor-to-file provisions – at least relative to inventor's who sought patents under the first-to-invent provisions of the pre-AIA U.S. patent law – enjoy unprecedented advantages when publishing on an invention before beginning the patenting process. As examples, the pre-AIA “grace period” available to inventors is fully preserved under the AIA's new provisions on “prior art” and the former risk that an inventor publishing on an invention before seeking a patent could forfeit patent rights to a rival inventor, spurred by the publication into seeking its own patent, was eliminated from the patent law.

Nonetheless, proposals have emerged that would unwisely expand these protections. In general, these overly expansive proposals would provide that the inventor who publishes on an invention would have advantages in later seeking a patent over an inventor who actually makes a prompt patent filing on the same subject matter. These proposals, thus, effectively impose a penalty on making a patent filing and a reward for delaying the start of the patenting process.

Imposing a penalty on the patent applicant vis-à-vis the inventor who delays coming to the USPTO to seek a patent in an invention is simply bad patent policy. The public faces a far longer period of uncertainty over the scope of patents. The validity of patents becomes less certain because validity will depend on the documentation provided to the USPTO concerning when and under what circumstances an alleged “publication” of the invention took place. (In contrast, documentation that a patent filing has taken place in the USPTO is much more categorical.) The potential for mischief in the case of publications allegedly made outside the United States exists.

It would be highly desirable to find a measure way to address university concerns. While the give and take with the university community may at some future point avoid the current impasse, other needed reforms set out in H.R. 3309 should not be delayed for consideration of reform measures that are not yet good to go.<sup>10</sup>

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inclusion of these provisions proves to be non-controversial and do not pose any obstacles to the movement of the bill through Congress, it might be preferable to delay their consideration until a broader consensus exists on the more fundamental changes to § 273 that are warranted by good patent policy and global competitiveness considerations.

<sup>10</sup> The allegedly problematic provisions of the AIA are the so-called “subparagraph (B)” provisions – 35 U.S.C. § 102(b)(1)(B) and 35 U.S.C. § 102(b)(2)(B). While they can operate to preserve the right to secure a valid patent on subject matter that the inventor has publicly disclosed, they do not insulate the inventor from the patentability-defeating impact of the disclosure of similar work of other inventors who make their own public disclosures before the inventor seeks a patent. In order to secure more categorical protection that publishing-before-filing inventors are seeking, it would be necessary to treat the public

#### 4. Commentary on AIA-Related Provisions in H.R. 3309

As to § 9 of H.R. 3309, several reforms would be made to existing U.S. patent law or practice. For most of the § 9 proposals, I would urge enactment in their current form, subject to possible suggestions from others that might further improve them. For two of the § 9 proposals, I might suggest that the proposed reforms do not go far enough – and would urge the Committee to be open to more sweeping possibilities for improving the patent law.

One of the § 9 proposals, however, appears to me to reopen an intricate compromise that was reached in the final stages of the congressional consideration of the AIA, *i.e.*, AIA § 18 dealing with one of the several new post-issuance review procedures that was created under the AIA. As noted below, if this compromise is to be reopened, a more expansive look at the extent of available post-issuance review procedures is warranted, particularly in light of the experience with these new procedures in the year since their initiation.

With this preface, let me offer a few specific perspectives that the Committee might find useful.

- *§ 9(a), repeal of the right of a patent applicant to pursue as civil action to secure a patent.* Notwithstanding any controversy over this change in the patent statute, on balance, the benefits to the few patent applicants who would seek this relief does not seem to me at least to justify the disproportionate burden placed upon the Office to build and maintain the capability to try these cases. It seems particularly unnecessary to maintain the civil action right for the first-inventor-to-file patents with far more transparent, objective, predictable and simple standards for patentability to administer.
- *§ 9(b), correction of legislative error, i.e., the errant inclusion of a judicial “or reasonably could have been raised” estoppel for post-grant review proceedings.* This legislative error greatly undermines the effectiveness of the PGR process as a mean for rapidly addressing questionable patents immediately upon issuance. It should be corrected and correction should be a priority in any patent reform bill enacted in this Congress

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disclosure of an invention by the inventor as tantamount to a provisional patent filing on the inventor’s published subject matter. Doing so would allow the inventor to make its nonprovisional patent filings on the published invention before the end of the one-year “grace period” from the date of publication, but the treat effective filing date of the nonprovisional patent filings as the year-earlier publication date. If the 2011 compromise on this issue is revisited by Congress, there could be a path forward to compromise that would involve repeal of the complex and complicated subparagraph (B) provisions and substitution of a relative brief and clear “tantamount to a provisional patent filing” provision treating an inventor’s publications as the equivalent of an actual filing for a patent. This would, thus, afford the publishing inventor no special advantage over the inventor who had made actual patent filing instead of making the public disclosure, but instead offer complete parity between publication and provisional patent filing on the disclosed subject matter.

- *§ 9(c), use of infringement standard for construing claims in deciding their validity under inter partes review and post-grant review.* The USPTO's decision to use a broader construction for claims than would apply when the claims are asserted in a patent infringement action is grossly unfair to patent owners and untenable in the context of a contested determination of patent validity in which the role of the USPTO is the adjudicator, not the examiner (in the sense of patent examination). It operates contrary to the intention of Congress in enacting the provision and the expectation of the proponents of the new inter partes review and post-grant review provisions in advocating their adoption. Had provisions mandating the current USPTO claim construction been in the AIA, the bill might never have become law. A legislative fix seems ripe and necessary given the USPTO's total non-responsiveness to requests for administrative reconsideration.
- *§ 9(d), codification of the principles of the judge-made law of "double patenting" for first-inventor-to-file patents.* This codification significantly reforms the law of double patenting, while capturing all of the judge-made law's principles that bar timewise extension and/or separate enforcement of patents with highly similar claims owned by the same or related parties. Its clarity alone makes it an important patent litigation reform measure.
- *§ 9(e), modification to AIA § 18 (transitional program for covered business method patents).* AIA § 18 creates a special procedure for challenging the validity of "covered business method patents" (CBMPs) that was enacted together with AIA § 6, creating the new "inter partes review" and "post-grant review" proceedings in Chapters 31 and 32, respectively, of title 35, United States Code. These three types of post-issuance procedures were enacted together to produce an integrated and finely balanced set of new post-issuance proceedings in the USPTO. They were the result of a carefully negotiated set of compromises on the contentious issue of when and under what conditions the validity of an issued U.S. patent could be challenged back in the USPTO. Self-evidently, any substantive change to AIA § 18 would unsettle this compromise.<sup>11</sup> As one of the long-time proponents for making the Chapter 32 PGR procedures part of U.S. patent law, I believe that it is premature to reopen the 2011 compromise by taking up amendments that could change material aspects of the most controversial aspect of the compromise, the AIA § 18 provisions.<sup>12</sup> If the proponents of AIA

<sup>11</sup> H.R. 3309 attempts to correct a drafting error in the AIA that limited the permissible scope of CBMP proceedings. The attempted correction is found in § 9(e)(2)(B). The correction would allow prior art patent filings naming other inventors to be considered in the CBMP proceedings, *e.g.*, patents and published patent applications as set out under pre-AIA § 102(c). However, the proposed correction should be revised to read "subsection (a) or (e) of section 102" rather than "subsection (a), (d), or (e) of section 102". Pre-AIA § 102(d), because it is best understood as a "loss of right to patent" provision rather than a prior art provision. To the extent the amendment corrects a drafting error in the AIA, there should be no principled objection to proceeding with this aspect of § 9(e) of H.R. 3309.

<sup>12</sup> As best I can tell, the USPTO's implementing regulations defining the nature of CBMP-eligible inventions remain highly controversial, as does the *Versata* decision. See *SAP America, Inc. v. Versata Dev. Group, Inc.*, CBM2012-00001, Paper 36 (January 9, 2013). Under § 9(e)(2)(A) of H.R. 3309, the



§ 18 insist that Congress revisit the CBMP-related provisions of the AIA, the Committee should do so in the context of a balanced and holistic look at the operation of all three “post-issuance review” chapters enacted together under the AIA.<sup>13</sup>

- *§ 9(f), clarification of limits on patent term adjustment.* These USPTO-proposed amendments appear on their face to be unobjectionable. With the advent of first-inventor-to-file patents and the ability of patent applicants to secure prompt action by the USPTO to get patents issued through the Prioritized Patent Examination Program, the original policy justification for Patent Term Adjustment, never strong to begin with, has now all but evaporated. If the USPTO were willing to grant Prioritized Patent Examination to any patent applicant meeting the current qualifications, the Committee ought to consider whether the time has come to retire the PTA statute in its entirety – most especially for first-inventor-to-file patents.
- *§ 9(g), clarification of federal interest in patent-related claims.* The section provides an appropriate clarification of the federal interest the adjudication of causes of action involving rights granted under the patent law. It represents a useful effort at securing consistency in the interpretation of patent rights.

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decision would be deemed controlling. Thus, § 9(c) would be correctly viewed by some as substantively reopening the compromise that led to the enactment of AIA § 18.

<sup>13</sup> The AIA § 18 CBMP procedure carried with it the least policy justification of any post-issuance review procedure enacted under the AIA. No substantial policy justification for applying the CBMP provisions to the first-inventor-to-file patents exists, given that all these patents will be subject to an immediate (and more comprehensive) post-grant review procedure. Similarly, for newly issued first-to-invent patents, the same policy considerations that dictate tight time limits on the availability of PGR proceedings should constrain the availability of the CBMP proceedings. This would require limiting the ability to seek a CBM proceedings to the same nine-month window after any new patent issues. Finally, the eight-year “sunset” provision for requesting CBMP proceedings otherwise remains an unjustifiably long period for a provision that was touted as “transitional” by its proponents. (A three-year transition would have been adequate and, again, it is difficult to identify any justification for a “transition” period beyond five years.) Any reopening of CBMP provisions of AIA § 18 provisions should address the desirability of imposing more appropriate constraints on § 18 – *i.e.*, not the lifting of the § 18 “sunset” in § 9(e)(1)(B), but further constraining the availability of the CBMP procedure. In a similar vein, if AIA § 18 is reopened to reconsider its merits, I would urge that the Committee take up the issue of whether the new IPR procedures should be barred for all patents issued under the first-inventor-to-file rules (PGR is available for such patents and public policy considerations would encourage its use by barring later resort to IPR) and, additionally, barred for any patent where the same issue could be (or is being) raised in an ongoing patent validity determination in the courts. The Committee has the ability to reconsider the IPR provisions in the AIA in light of actual experience with the administration of IPR proceedings by the USPTO. For example, 80% of IPR requests represent potentially wasteful and duplicative litigation – because precisely the same patent validity issues that are considered during the IPR could be fully and fairly resolved in concurrent district court proceedings involving the same patent. At a time when USPTO resources will be needed to handle a growing number of potentially more important and more impactful PGR proceedings, the Committee might well conclude that both § 18 CBMP and Chapter 31 IPR procedures merit a lesser priority and a lesser emphasis. Alternatively, as to proposed changes to AIA § 18, the Committee might conclude that sleeping dogs should be allowed to lie – and the 2011 compromise on CBMP, IPR and PGR should be allowed to remain undisturbed absent some compelling justification for moving forward with a holistic reassessment of their operation and impact on the patent system.

- *§ 9(h), technical amendments.* While each of these amendments is technical in nature, the amendments in paragraph (2), relating the inventor's oath or declaration requirement in 35 U.S.C. § 115, seem unnecessary. The paragraph (2) amendments, at best, complicate compliance with the requirement under § 115 and undo reforms that were intended under the AIA. The Committee should consider an alternative technical amendment that would eliminate the requirement for an oath or declaration for all assignee-filed patent applications and otherwise provide the USPTO authority to require such statements only where the agency finds it necessary or desirable to require the additional paperwork.<sup>14</sup> Doing so would clearly obviate the need for the amendment in paragraph (2) and represent a reduction in clearly needless paperwork in connection with patent filings, particularly in comparison with the additional burden that would be imposed under paragraph (2).

Even without consideration of the remaining substantive provisions of H.R. 3309 found in § 3 through § 6, the Committee's efforts in § 9, especially if augmented with additional measures that could be included to complete the work of the AIA described above, would constitute a major set of improvements to the U.S. patent system.

## 5. Patent Litigation Rules and Procedures – The Need for Concerted Action

By far the lengthiest and most complex portions of H.R. 3309 are those that relate most directly to the conduct of patent litigation in the courts. First and foremost, there is virtually no dissent from any constituency in the patent community that patent litigation must work better for both the patent owner and the accused patent infringer. As my testimony will elaborate, patent litigation concerns are not technology-specific concerns. They do not have a plaintiff-specific character or represent a defendant-centric issue.

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<sup>14</sup> A more comprehensive reform could be realized if, under 35 U.S.C. § 115(a), second sentence, the current statutory provision were modified to add the italicized language (and remove the word "shall"), as follows: "Except for an application filed under section 118 or as otherwise provided in this section, each individual who is the inventor or a joint inventor of a claimed invention in an application for patent *shall may be required by the Director to* execute an oath or declaration in connection with the application." The reference to "section 118" would eliminate any inventor oath/declaration requirement in the case of patent filings by an assignee of the inventor named in the application as the inventor. The AIA for the first time permitted the patent owner to seek a patent in cases where the inventor has assigned the right to seek a patent. At the same time, the AIA reduced the requirement of the inventor to file a separate oath or declaration to a mere formality –the actual filing of the oath/declaration need not take place until after the examination of the patent application is completely finished. Whatever merit might exist for continuing this now unnecessary paperwork in connection with patent filings clearly does not exist where the patent owner (assignee) is the patent applicant and a separate assignment of the invention (and, thus, the right to patent the invention) will be filed by the patent owner during the course of the patenting process. Simply limiting the applicability of the § 115 requirement to inventor-applicants would, first, obviate the need for the § 9(h)(2) amendment and otherwise limit paperwork that is wholly superfluous to the patent examination process. Moreover, it would serve to further harmonize U.S. patenting practices with "best practices" outside the United States.

As difficult as it may prove to forge a consensus on needed litigation reforms among competing interests within the patent community, it is essential that the stakeholders of all stripes come together and face the facts: there is an urgent need to work constructively to find measures that will make a dramatic difference in the ability to secure a timely and complete remedy for infringement of a valid patent and rapidly and inexpensively eliminate the specter of liability for an invalid one.

My hope is that H.R. 3309 will mark the starting point for an effort that must continue to an effective set of responses to these patent enforcement issues. Absent resolution, the concerns over the existing patent litigation rules and procedures – producing litigation consequences that often bedevil both plaintiffs and defendants alike – seem certain to doom the broad public support for the patent system. In part, it is public support that forms the underpinning for the patent system’s effectiveness as an engine for investment into the development of new technology.

Let me offer with a real-world example from my own experience of what I believe is at the core of the frustration in which patents are enforced today in the United States. It is an important example for several reasons. The patent at issue was not a “business method” or “software patent” or a patent in the financial services sector. It was not a patent owned by a so-called “patent troll” or a “patent aggregator.” Indeed, the litigation involved a patent whose pedigree could hardly have been more impeccable. The enforcement of the asserted patent was in the hands of a sophisticated biopharmaceutical research corporation and the patent’s named inventors included Nobel Laureate scientists.

The patent litigation spanned eight years from the original complaint to the final disposition on appeal by the Federal Circuit. At the mid-point in the litigation, a jury sustained the patent as not invalid and awarded damages for patent infringement in the tens of millions of dollars. However, as the appellate court would later confirm, the patent was wholly without merit.

The patent’s meritless character was no secret. After the jury verdict finding the meritless patent “not valid” and infringed, the patent litigation became the subject of a quite pointed editorial that appeared in *Nature Biotechnology*:<sup>15</sup>

Here’s an idea. If your company is looking for a bit of extra income to support its research and clinical programs and you’ve gone to all your usual sources of financing and still come up short, why not trawl around to find a piece of intellectual property (IP) from three prominent academic centers that stakes a claim to virtually every therapeutic approach under the sun modulating a pivotal pathway in biology—say one central to inflammation, cancer and osteoporosis, for starters—and then license it exclusively. It

<sup>15</sup> *Nature Biotechnology* 24, 593 (2006), “A License to Print Money?” available at <http://www.nature.com/nbt/journal/v24/n6/full/nbt0606-593.html>.

doesn't really matter whether the IP is related to your company's R&D interests; the important thing is that the patent is broad enough to make tens (perhaps hundreds) of drug companies subservient to your license. Simply send out 50 or so letters to your (former) friends and counterparts at companies around the nation informing them that they are infringing your patent and ask for an appropriately exorbitant level of remuneration. Sit tight and wait for the money to roll in.

Though it may seem far-fetched, this situation is essentially what has transpired in the case of US Patent No. 6,410,516. This is one of a family of patents covering methods of treating human disease by regulating nuclear factor (NF)- $\kappa$ B, exclusively licensed in 1991 from the Massachusetts Institute of Technology, the Whitehead Institute for Biomedical Research and Harvard University by Cambridge, Massachusetts-based biotech Ariad Pharmaceuticals. Four years ago, to test its patent's mettle, Ariad filed suit in the US District Court in Massachusetts, accusing Indianapolis-based pharma giant Eli Lilly of patent infringement.

On May 4, a federal jury in Boston ruled Ariad's patent to be both valid and infringed by two Lilly drugs, small molecule Evista (raloxifene) and recombinant protein Xigris (drotrecogin alfa), currently marketed for use in osteoporosis and septic shock, respectively. The jury awarded Ariad ~\$65 million in back royalties and a healthy 2.3% royalty on future US sales of the two drugs until the patent's expiration in 2019. The sum should cover Ariad's operating losses in 2005..., if not its legal fees.

The decision has sent shock waves through the industry not least because Ariad's patent, and similar method-of-treatment patents like it, could fence off whole swaths of biology, preventing other innovators from developing medicines because they may trespass (however tangentially) upon the patented pathway(s). Ariad's patent is particularly worrisome because NF- $\kappa$ B regulates the expression of more than 175 other genes and is involved in the mechanism of >200 marketed compounds, including aspirin, antibiotics and such biotech drugs as Velcade (bortezomib), Enbrel (etanercept) and Kineret (anakinra). To make matters worse, NF- $\kappa$ B is involved in virtually every disease you can think of, including cancer, arthritis,

chronic inflammation, asthma, neurodegenerative disease and heart disease. Almost no therapeutic indication is safe from its clutches.

Indeed, the IP lawyers appear to have gone to extraordinary lengths to ensure that anything that comes within so much as a whiff of NF- $\kappa$ B will be drawn into the '516' patent's black hole. As one industry insider puts, the patent's claims—an eye-popping 203 of them in all—are a “relentless paving machine, spreading hot asphalt on everything in sight and spraying lane markers for the toll booths.” No wonder the patent took 16 years of prosecution at the US Patent and Trademark Office (USPTO) before eventually issuing.

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Patents are supposed to encourage invention, commercialization, disclosure and societal benefit in return for a limited market monopoly. They were never intended as a means for a single company to hold the rest of the industry to ransom. The courts must now act swiftly to invalidate this patent. And, more importantly, they must provide clearer guidance to the industry and USPTO as to the proper scope of patentable subject matter. Let's hope patent '516' goes down in flames. The sooner, the better.

The day the patent issued – June 25, 2002 – was the day that Eli Lilly and Company was sued for patent infringement. I recall that day well, because I learned of the lawsuit while traveling in Boston. An analyst from Lilly's investor relations group wanted an immediate assessment of this litigation in order to respond to investors who were calling Lilly attempting to assess the seriousness of this lawsuit – and the potential for others just like it that the company might face in the future.

I took me a relatively small amount of time – hours, not days or weeks – to get enough facts together to conclude that the infringement allegations were utterly without merit – if Lilly were to competently defend the action, there was almost no prospect the Lilly would be found liable.

That response from me was categorical and public – the patent should never have issued; there was essential no prospect that the validity of the patent would be upheld; and Lilly would ultimately have no liability. Even after the patent owner was successful in securing a multi-million dollar jury judgment against Lilly, I was no less adamant that the patent was utterly without any legal merit and Lilly would prevail.<sup>16</sup>

<sup>16</sup> See <http://www.cafepharma.com/boards/showthread.php?t=94198>, misquoting a statement that I had made to the press following the jury verdict: “The likelihood of this decision being upheld is so low, so

Eventually the entire Federal Circuit weighed into the issue of the patent's validity. There was no suspense. The only point of contention among the appellate judges was which requirement in the patent statute was the correct one to use to invalidate the patent.

What should this saga tell the Committee about patent reform? I would submit there are several learning points:

- There is no substitute for a patent examination system that – even in the face of 16 years of effort to secure meritless patent claims – persists in refusing to issue a patent that, if challenged, could not be sustained as valid. That did not happen here. After 16 years of patent examiners who would just say “no,” the patent owner finally found a patent examiner who would say “yes” to over 200 hopelessly invalid patent claims. *One entirely meritless patent is one good reason that patent reform measures – including litigation reform proposals – should start by giving careful consideration to the issue of USPTO financing and the ability of a properly financed USPTO to deliver on long-term commitments to enhancing its capabilities.*
- The issues with patent litigation are not confined to “patent trolls;” any reform issues to be addressed are not unique with “patent assertion entities. The plaintiffs in this case were an esteemed university (Harvard), a renowned research institute (Whitehead Institute) and a sophisticated biopharmaceutical research organization (Ariad Pharmaceuticals, Inc.). *Legislative reforms should be targeted to a practice, not a person.*
- None of the needed litigation-related reforms are unique to any technology. Nothing in the patent at issue in the Lilly lawsuit related to computers, software, business methods, tax preparation methods, or financial services. Rather, this was a patent relating to a profoundly important discovery in the area of biomedical research. *Legislative reforms should not be drafted as though they were writing to a technology sector, but to issues that can plague a patent litigant across technologies.*
- However, lengthy and expensive Lilly's defense might have been in this litigation, the situation would have been far worse if the plaintiff had brought the same patent infringement claims against Lilly's “customers” – individual prescribing physicians, medical clinics, or even patients using the medicine, all of whom would have carried the same liability for infringement as Lilly had the patent been valid. Whatever pressure might have existed for Lilly to have settled this litigation would have been profoundly more intense had Lilly's market for its accused products been impaired by customer lawsuits. *Reforms should reduce the prospect that either side to a patent infringement lawsuit can induce a resolution*

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close to zero, that I'm more worried about the next asteroid wiping out Western civilization,” Robert Armitage, Lilly's general counsel, said in an interview.”

*simply by making it uneconomic for its adversary to pursue a legitimate remedy or mount a meritorious defense.*

- This infringement lawsuit was no picnic for the plaintiffs. In addition to losing a lawsuit on a patent that the plaintiffs may have mistakenly believed could be successfully enforced, they faced the distraction of the litigation and the waste of corporate resources that could have been put to productive investments into new medicines. An early and decisive decision invalidating the patent would have better served plaintiffs than a prolonged, multi-million dollar futile effort at assertion. *Actions taken by Congress should assure that the AIA's post-grant review procedure becomes a viable option in fact, that is used to efficiently and effectively cancel newly issued patents that lack merit.*
- The number of concurrent and meritless patents lawsuits faced by a company does matter. Most Lilly-sized companies may be willing and able to address one meritless patent lawsuit at a time. Fewer would have the ability to exhibit the same behavior if there were multiple such meritless lawsuits brought each year. And, at some point, quantity alone would be enough to drive companies to compromise, rather than fight, patent infringement claims, even those lacking much, if any, discernable merit. The hallmark of a completely broken patent system would be if patent litigation were to support a business model in which meritless allegations of infringement would be enough to produce economically attractive settlement offers from the accused infringer, solely because the costs, delays and uncertainties in seeking to invalidate the patent in court make defending against the patent an act of economic irrationality. *A collection of individual litigation-related reform measures, able to work synergistically, may be required to assure that the integrity of the patent system is not called into question because litigation assertion potential, not inventive merit, has become the yardstick for measuring the economic value of a patent.*

In light of the Lilly experience, I would like to offer a few observations on the topics addressed in § 3-§ 6 of H.R. 3309:

- *Greater Pleading Specificity.* What is good for the goose, is good for the gander. Both plaintiffs and defendants in patent infringement litigation would reap benefits from much greater pleading specificity by their litigation adversary. One on hand, it is critical to understand the nature of the allegations of infringement. On the other hand, it is vital to understand the defenses to validity and infringement and their basis. Greater specificity in pleading opens the door to greater focusing of permitted discovery, by limiting available discovery to evidence potentially relevant to the specific claims or defenses pled.
- *Fee Shifting to Losing Party.* To the extent that providing a prevailing party the right to recover its attorneys' fees from the non-prevailing party serves to deter both parties from asserting claims or defenses of dubious merit, such an outcome should more than offset the less desirable consequences of doing so – one of

which is discouraging accused infringers of limited resources from mounting invalidity and non-infringement defenses, given that failing to prevail might double the negative consequences from failure. Under an appropriate legal standard, shifting of attorneys' fees to the non-prevailing party should represent a significant civil justice reform.

- *Tying the Commencement of Available Discovery to Claim Construction Rulings.* There are good reasons why the Committee might wish to proceed with caution in any categorical tying of the commencement of available discovery to the so-called "claim construction" or "Markman" rulings. No aspect of contemporary patent litigation is more fraught with problems than the Markman process.<sup>17</sup> Markman Rulings on disputed terms used in a patent are – with a frequency some find distressing – modified (or even reversed) by the Federal Circuit in the course of deciding an appeal. District court judges themselves may modify an original ruling as the infringement lawsuit proceeds. In some patent infringement litigations, the Markman Ruling can be dispositive of the infringement issues in the litigation; in other patent infringement litigations, the Markman Ruling is inconsequential to the ultimate resolution of the lawsuit. A one-size-fits-all statute tying the commencement of available discovery to the initial Markman Ruling would make sense in some litigations, but possibly not in others. That said, the Markman process is unlikely to disappear – at least in the foreseeable future. The specter of early, burdensome discovery costs – that can make paying tribute to the patent owner the only economically sensible path forward irrespective of the merit of the patent – can be effectively removed in situations where the result of an early Markman Ruling provides the basis for a straightforward defense on lack of novelty or non-infringement grounds.
- *Transparency of Patent Ownership.* Patent rights best serve the public interest when they operate as property rights – and the ownership of the property rights is fully transparent. Requirements to promptly disclose information on which the identity of other interested parties in the asserted patent can be determined by the accused infringer may also serve the interests of justice, at least in situations where they are of potential relevance to the rights or defense the accused infringer might assert.
- *Customer Lawsuits: Stays of Litigation.* In many situations, the patent owner can be – and ultimately will be – made whole for any acts of infringement that have taken place, or will take place, by suing the manufacturer of an accused product. In this and like situations, separate infringement lawsuits brought against customers may serve no legitimate purpose – at least where the manufacturer is willing and able to stand in the shoes of its customers and the customer agrees its interests would be served by having the manufacturer take over the defense of the

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<sup>17</sup> The "Markman Hearing" in a typical patent litigation is a separate proceeding conducted by the judge to construe the "terms" of a patent claim for which the parties have differing views. The "Markman Ruling" following a Markman Hearing will often be a chart that lists the disputed terms of the claim and provides an indication of the meaning to be given to the disputed terms.



patent. In appropriate circumstances, requiring that the customer infringement action to be stayed until the action involving the manufacturer has been resolved would prejudice no legitimate interest of the patent owner and would conserve judicial resources.

- *Mandating Specific Discovery and Case Management Practices for the Judicial Conference and Supreme Court to Incorporate Into Rules and Practices.* A broad consensus appears to exist that the Judicial Conference and the Supreme Court could play positive roles in patent litigation reform efforts by developing rules and procedures that would result in more specificity in patent pleading and better tools for the management of discovery. The point of contention arises on the issue of whether Congress should dictate the content of the rules and procedures and, if so, to what level of specificity. The greater the mandated detail, the greater the specter that the “one size” will not serve to “fit all” situations. Directing the Judicial Conference down a productive path should steer clear of dictating to a level of detail that, however sensible for a court in some situations, would manifestly fail to advance the administration of justice in others.

Quite clearly, H.R. 3309 is focused on all the right issues – pleadings more robust, discovery more controlled, patent ownership more transparent, customer actions less frequent and the Judicial Conference more engaged. What is needed now is for the constituencies that will be affected by these reform initiatives to come together on the many details that will result in alignment on the best path forward – to assure that the final legislative product, even if built on compromise, is an effective and comprehensive response to the unacceptable state of affairs for all patent litigants, whether plaintiffs seeking remedies or defendants deserving of exoneration.

### ***Conclusions***

H.R. 3309 is a thoughtful and comprehensive effort that holds the promise of making significant improvements to the environment in which patents are litigated. To realize that promise, further refinements will be needed as the bill progresses through Committee deliberations. That said, the bill as introduced should serve as an excellent vehicle for proceeding forthwith with the refining and finalizing process. Certainly, the constructive criticisms of and other comments on the bill made thus far provide grounds for optimism that the remaining concerns over the specific details in the current bill can be successfully addressed.

In addition to the elements of the bill dealing most directly with patent litigation reform, H.R. 3309 contains additional provisions that are important to the patent system and merit inclusion in any bill reported by the Committee. Near the top on this list would be the clarification and reform to the law of “double patenting” – at least for first-inventor-to-file patents. The other top-tier reform would bar the USPTO from employing a different “claim construction” standard for determining the validity of a patent in a post-issuance review procedure from that mandated by the Federal Circuit in patent infringement litigation.

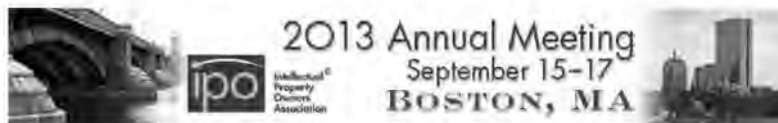
Other patent reform measures, not currently included in the provisions of H.R. 3309, would complete the work of the AIA and the recommendations of the National Academies on which much of the AIA was premised. These include an experimental use exception to patent infringement, mandated publication of all pending patent applications at 18 months from the initial filing date, completing the repeal of the “best mode” requirement, and confirming congressional intent with respect to the limitation on “prior art” that can invalidate a patent for lack of novelty or non-obviousness to publicly accessible subject matter.

Finally, the Committee should not lose sight of the most important factor in assuring an effective patent system – a United States Patent and Trademark Office operating effectively and efficiently. That objective is frustrated when the USPTO’s financing is uncertain – month to month or year to year. The consequences of sequestration during the last fiscal year suggest that a complete reform package in the current Congress would find some mechanism to assure that this history cannot repeat itself.

Thank you again, Mr. Chairman, for the privilege of being able to appear before this Committee today and offering – what I hope and intend are – comments that might facilitate the work of the Committee in moving the next generation of patent reform into law.

## APPENDIX

## Appendix A: 2013 IPO Annual Meeting (Armitage Paper)



**THE LEAHY-SMITH AMERICA INVENTS ACT OF 2011:  
LOOKING BACK TO SEE WHAT'S AHEAD**

2013 IPO Annual Meeting – Boston, Massachusetts  
September 16, 2013

Robert A. Armitage  
Marco Island, Florida

*Introduction – The Miracle of Miracles That is the America Invents Act*

The road to the world's first truly 21<sup>st</sup> century patent system was not an easy one. Looking back, it is fair to say that the Leahy-Smith America Invents Act of 2011<sup>18</sup> was enacted notwithstanding the prospective impossibility of ever making such a set of profound and fundamental changes to U.S. patent law all in one massive reform bill.

Consider the lessons provided by patent reform history. When the last major revision of U.S. patent statute was made in 1952, it was characterized by its congressional sponsors as a codification of the then existing patent law,<sup>19</sup> with very limited efforts to change the patent law.<sup>20</sup> The Patent Law Amendments Act of 1984<sup>21</sup> sought – and achieved – only marginal improvements to the operation of the U.S. patent system.<sup>22</sup> The modestly aggressive reform

<sup>18</sup> Pub. L. No. 112-29, 125 Stat. 284 (2011).

<sup>19</sup> "The [1952] revision of Title 35 was primarily a codification project by a House [of Representatives] codification committee and to get it enacted promptly without a long debate, it had to be kept noncontroversial." Judge Giles S. Rich, *Laying the Ghost of the "Invention" Requirement*, 41 AIPLA Q.J. 1, 15 (2013), as reprinted.

<sup>20</sup> See Cong. Rec. (Senate) 98:9097, 9323 (1952). In the Senate debate on the 1952 Patent Act, Senator Wiley, in presenting the bill for consideration, stated that "[t]he bill simply constitutes a restatement of the patent laws of the United States." Subsequently, a colloquy ensued between Senators McCarran and Saltonstall:

"Mr. SALTONSTALL. Mr. President, will the Senator from Nevada tell us the purpose of the bill?

"Mr. McCARRAN. The bill would codify the patent laws of the United States. It is under the able guidance of the Senator from Wisconsin, Mr. Wiley.

"Mr. SALTONSTALL. I am not a patent lawyer, but I know patents are a very technical subject. Does the bill change the law in any way or only codify the present patent laws?

"Mr. McCARRAN. It codifies the present patent laws."

<sup>21</sup> Pub. L. No. 98-622, § 103, 98 Stat. 3383.

<sup>22</sup> President Reagan characterized the changes made in the PLAA of 1984 in the following terms: "The bill provides inventors with a new, efficient mechanism to protect their right to use their inventions without the need to expend scarce resources to obtain a patent. This procedure offers great cost savings potential to Federal agencies, which are the single largest filers of U.S. patents. It also closes a loophole in existing law which permitted copiers to export jobs and avoid liability by arranging for final assembly of patented machines to occur offshore. The act eliminates unwarranted technicalities in the patent law that threaten the validity of patents for inventions arising from corporate research teams." See "Statement on Signing the Patent Law Amendments Act of 1984," Nov. 9, 1984 at <http://www.presidency.ucsb.edu/ws/?pid=39406>. The first of the PLAA's achievements was repealed by the AIA.

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agenda for the American Inventors Protection Act of 1999<sup>23</sup> was highly attenuated in its final legislative text.<sup>24</sup>

In contrast, the AIA was purposefully a comprehensive reform bill, both as a whole and in each of its key parts.<sup>25</sup> It was intentionally designed to upset a raft of settled notions and settled expectations about what the U.S. patent law should be and how it should operate. Taking the bill part by part, it becomes clear just how amazing its journey through Congress to final enactment into law was.

For example, a more narrowly crafted patent bill aimed at doing no more than flipping U.S. patent law from a first-to-invent to a first-inventor-to-file system would have been doomed to failure. Even at the start of the second decade of the 21<sup>st</sup> century, such a change to U.S. patent law was so controversial – and had such a limited constituency willing to push past the controversy – that a first-inventor-to-file standalone bill would never have come to a vote in the 112<sup>th</sup> Congress.

Other important reform provisions would have met no better fate. Imagine a standalone bill proposing to eliminate the consequences of failing to comply with the “best mode” disclosure requirement? Dead on arrival for certain.

Consider the viability of a bill designed to do no more than remove the “deceptive intention” provisions that had limited an inventor’s ability to take remedial actions, such as changing the named inventor in an application or patent or seeking a reissue patent. No chance whatsoever of a congressional sponsor taking up that cause standing by itself.

What of legislation permitting the inventor’s assignee to make the application for patent or effectively eliminating the historic requirement for filing a separate inventor’s oath in connection with a patent filing? No congressional champions would ever have emerged to push through such largely formal changes in the operation of U.S. patent law, however desirable the consequences of their enactment.

In a similar vein, consider a bill did no more than rewrite § 102 of the patent statute from scratch – with the intent to remove a host of “loss of right to patent” provisions and fully globalize the definition of the prior art used to determine whether a claimed invention in a patent filing was novel and non-obvious. By itself, this would have been a very tough sell.

<sup>23</sup> Pub. L. No. 106-113, § 4807, 113 Stat. 1501;

<sup>24</sup><sup>24</sup> The AIPA of 1999 was originally intended to provide universal 18-month publication of all pending patent applications, but succeeded in mandating publication of only some; to provide a prior user defense for all patented inventions, but achieved only a limited defense for some types of inventions; to provide contested reexamination proceedings for issued U.S. patents, but did so only in a highly prospective manner and with a draconian estoppel provision that discouraged its use.

<sup>25</sup> See generally, Robert A. Armitage, *Understanding the America Invents Act and Its Implications for Patenting*, AIPLA Q.J. 40:1, 133 (2012) [available for downloading at [http://www.uspto.gov/aia\\_implementation/armitage\\_pdf.pdf](http://www.uspto.gov/aia_implementation/armitage_pdf.pdf)] and Robert A. Armitage, “LEAHY-SMITH AMERICA INVENTS ACT: WILL IT BE NATION’S MOST SIGNIFICANT PATENT ACT SINCE 1790?”, *Washington Legal Foundation Legal Backgrounder*, Vol. 26, No. 21 (September 23, 2011), available at: [http://www.wlf.org/Upload/legalstudies/legalbackgrounder/09-23-11Armitage\\_LegalBackgrounder.pdf](http://www.wlf.org/Upload/legalstudies/legalbackgrounder/09-23-11Armitage_LegalBackgrounder.pdf).

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Within this one section of the new patent law alone, there are a plethora of intricate policy choices. Any one of the myriad of § 102 issues could have been the source of divisive and disabling controversy over how to proceed with an entirely new structure for assessing the scope and content of the prior art.

Perhaps most amazingly, the AIA contained a provision that enables any patent owner to correct any error or omission in the original examination of the application for patent and, once corrected, prohibits the patent from later being declared unenforceable based upon prosecution misconduct. If any provision of the AIA standing alone would have appeared to be legislatively impossible, it would have been this provision of the AIA creating supplemental examination.

Finally, imagine the wrath that would have descended on the halls of Congress if the only provision of a patent reform bill had been a section subjecting all newly issued patents to a reassessment their validity – allowing a patent challenger to raise any issue of invalidity that an accused infringement might be entitled to raise in a civil action to enforce the patent. Adding fuel to the fire of controversy that such a provision would have engendered were ancillary provisions specifying that such a proceeding would be conducted before administrative patent judge who would be required by statute to conduct and complete the validity review within one year from its initiation.

If it would have been a certifiable miracle for any one of these provisions to have run the congressional gauntlet and become law, it is certainly a miracle of miracles that these profoundly important changes to our patent system have now come into full effect. How did the relative congressional timidity in making patent reforms – dating back more than a dozen decades – come to such a profound end with the AIA?

To answer this question, it is worth a look backward, specifically at the vision that was at work that led to the enactment of these orchestrated changes to the U.S. patent system, in the specific form that they took, as an unapologetic effort at radical modernization of our nation's patent laws.

***The Vision: Why It Was What It Was – In the Way It Was***

The key provisions of the AIA – first-inventor-to-file revolution, repeal of “loss of right to patent” bars to patentability, the globalization of the definition of prior art, the enhancement of the inventor- and collaboration-friendly prior art exclusions, the effective repeal of the “best mode” disclosure requirement, the removal of the “deceptive intention” limitations on remedial actions to preserve or protect or perfect a patent, the availability of assignee filing of patent applications, the *de facto* demise of the requirement for a separate inventor's oath or declaration, the opportunity through supplemental examination to correct any and all errors or omissions in patent examination that might otherwise have destroyed the enforceability of the patent, and the plenary opportunity via post-grant review to challenge and rapidly remove a patent with invalid claims once issued – were neither an accidental nor an uncoordinated set of amendments to the patent code. Rather, they were the product of a unified vision of what a 21<sup>st</sup> century patent system should be at its core.

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*Transparent, Objective, Predictable and Simple*

This vision for a 21<sup>st</sup> century patent system that inspired the drafting of the AIA was as coherent as it was straightforward. Its overarching policy objective was that determining validity for a claimed invention in a patent should, to the maximum extent possible, be *transparent, objective, predictable and simple*. That, in a nutshell was the motive force driving the AIA's core provisions on patent validity.

There were but two tempering factors in the drive to this vision. A simple patent law, however desirable simplicity might be, should nonetheless impose a rigorous and complete set of policy-driven requirements for a valid patent. One of the masterful aspects of the AIA was that the most critical provisions of the patent law, provisions limiting the scope of protection that could be secured by a valid patent, were undiminished. Indeed, through reforms chucking the distraction of the “chaff” of the pre-AIA patent law, the kernels of a rigorous patent law become all the more visible. As will be discussed later, the “four oarsman of patent validity” remain onboard, with each able to pull its own weight, to assure the patent system does not veer off course.

Second, in the 21<sup>st</sup> century, a patent law should be both inventor friendly and collaboration friendly. This friendliness is appropriate given how teams of engineers and scientist often work together – across organizational boundaries – to discover and then work to refine discoveries. This need for inventor and collaboration friendliness in the patent law required the introduction of complicating factors into the AIA. First, it meant retaining the inventor's one-year “grace period” in an undiluted form. Second, it required expanding protections for inventors and their collaborators against so-called “self-collision.”

The inventor's one-year “grace period” was carried over in a perfected, undiminished form from the pre-AIA law. As for “self-collision,” the inventor's earlier patent filings, or those of his co-workers or collaborators, cannot be used to limit the subject matter that might be successfully patented in the inventor's later-filed patent applications, provided the new (and more liberalized compared to pre-AIA law) statutory requirements are met..

The text of the AIA in these respects did not, of course, descend from some legislative mountain engraved on stone tablets. It was in the end the work of congressional compromise. Some elements of the final compromise were unrelated to the vision. Others, although modestly dilutive of the vision, were not inconsistent with it.

If there were disappointments (or, in a glass-half-full sense, future opportunities for improvement) in the AIA revolution, they lie in the failure to repeal outright the “best mode” requirement<sup>26</sup> and, more unfortunately, the failure to explicitly overrule the judge-made law of

<sup>26</sup> The “best mode” requirement epitomizes the type of subjective, complicating, and even mystifying provisions of pre-AIA law that deservedly merit congressional contempt in crafting a 21<sup>st</sup> century patent system. Looking back, leaving the vestiges of the requirement on the statutory books was one of the most regrettable compromises needed to get the AIA enacted into law. An objective patent system would not look into the mind of the inventor on the day of the patent filing to determine if the inventor's patent were valid or not. Rather, it would look to the ability of

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“inequitable conduct.”<sup>27</sup> While major reforms were worked on both these issues as part of the AIA, the continuing presence of vestiges of these elements from pre-AIA U.S. patent law can now be best seen for what they are – an international embarrassment.

Nonetheless, the AIA’s historic achievements in the area of transparent, objective, predictable and simple requirements for patent validity paved the way for the new post-grant review procedure. In order to make a fair and complete adjudication of the validity of a patent, on any ground of validity that might be raised as a defense to patent infringement, and be able to do so within a 1-year statutory time limitation, it was essential in designing the AIA’s patent validity provisions that issues requiring discovery, particularly discovery of the inventor, be highly circumscribed. It was equally important that the needed fact-finding be limited. Looking back, the AIA did a fine job of achieving the discovery-limiting objective.

It did so in large measure by carefully pruning the law of patent validity. The law on patent validity can now be reduced to what should come to be seen as a set of four legal issues, highly transparent to assess and wholly objective in character.

*Limiting Patent Validity to a Quartet of Legal Issues*

A second purposeful aspect of the patent law under the AIA was the reduction of the law of patentability to a quartet of legal issues, at least where the inventor takes full advantage of the multitude of remedial provisions under the AIA. A first-inventor-to-file patent should not be invalid or otherwise unenforceable unless a claimed invention in the patent fails one of four tests for validity.

The four requirements can be stated quite succinctly:

Is the claimed invention *sufficiently different* (novel and non-obvious) over earlier public disclosures and earlier public patent filings of other inventors?

Is the claimed invention *sufficiently disclosed* such that the patent filing adequately identifies the claimed embodiments and enables them to be put to a specific, practical and substantial use?

Is the claimed invention *sufficiently definite* such that the claim to the invention provides a reasonable differentiation between subject matter that is and is not being claimed?

Is the claimed invention *sufficiently concrete* such that the process, machine, manufacture or composition of matter being claimed is not expressed in terms that are excessively conceptual or otherwise abstract?

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those of ordinary skill in the technology of the invention to practice the full reach of the invention without resort to undue efforts in order to do so. The genius of the AIA is that it has now sharpened the focus on these types of patent-limiting provisions of law. The new Congress should be encouraged to undertake a full repeal of the “best mode” requirement. See *infra*.

<sup>27</sup> The “inequitable conduct” doctrine remains the most head-scratching of the several judge-imposed requirements for an enforceable patent that survive the enactment of the AIA. Creative ideas were advanced to overrule the doctrine as part of the process that led to the AIA. Sadly, some of the most esteemed members of the patent profession spoke up in against legislative proposals for wiping out the doctrine in its entirety and helped cripple this effort—not their finest hour. See, again, *infra*.

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There are, of course, other considerations that can result in a patent being held invalid under the AIA. Traditionally, a patent failing to name the correct inventor was invalid – and the ability to correct an incorrectly named inventor could be barred where deceptive intent was involved in the incorrect naming.

With the AIA, inventor correction is available in all situations. Deceptive intention is to be disregarded in its entirety in all inventorship corrections. Thus, incorrectly naming the inventor produces an invalid patent only where the correct inventor – or its assignee – does not undertake any of the available remedial actions needed to erase this ground of invalidity.

In a similar vein, a defective inventor's oath or declaration formerly was a death sentence for a patent. Under the new "safe harbor" provisions of the AIA, once a corrected inventor's oath or declaration has been filed in the Office, a patent cannot be held invalid or unenforceable on account of the original defect in the oath or declaration, however severe.

Given that there will be four and only four invalidity grounds in most invalidity contests, what is the full significance of this pruning of the precepts of patentability?

One intended corollary of the AIA's new "Patentability Gestalt" is the transformation of the question of patent validity from a mish-mash of questions of law and questions of fact to a *legal standard* where patent validity ultimately becomes a *question of law*, grounded on subsidiary facts.

In much the same manner that claim construction is a question of law, one that the Supreme Court has indicated is for the judge, not the jury, to determine,<sup>28</sup> the stage has been set for a similar policy determination on the proper role for the jury in assessing the validity of a patent. This aspect of the coordinated changes to U.S. patent validity law under the AIA represents a subtle, but as yet barely appreciated, aspect of the vision for the AIA.

How did this change transpire?

First and foremost, the "best mode" requirement was a significant impediment to any contention that patent validity be treated as a question of law.<sup>29</sup> However, the AIA has wholly eliminated

<sup>28</sup> "Existing precedent, the relative interpretive skills of judges and juries, and statutory policy considerations all favor allocating construction issues to the court. As the former patent practitioner, Justice Curtis, explained, the first issue in a patent case, construing the patent, is a question of law, to be determined by the court. The second issue, whether infringement occurred, is a question of fact for a jury. *Winans v. Denmead*, 15 How. 330, 338. Contrary to Markman's contention, *Bischoff v. Wethered*, 9 Wall. 812, and *Tucker v. Spalding*, 13 Wall. 453, neither indicate that 19th-century juries resolved the meaning of patent terms of art nor undercut Justice Curtis's authority. Functional considerations also favor having judges define patent terms of art. A judge, from his training and discipline, is more likely to give proper interpretation to highly technical patents than a jury and is in a better position to ascertain whether an expert's proposed definition fully comports with the instrument as a whole. Finally, the need for uniformity in the treatment of a given patent favors allocation of construction issues to the court." *Markman v. Westview Instruments Inc.*, 38 USPQ2d 1461, 517 US 370, 116 SCt 1384 (1996).

<sup>29</sup> "Whether an applicant has complied with the best mode requirement of section 112 is a question of fact, *Chemcast Corp. v. Arco Indus. Corp.*, 913 F.2d 923, 928, 16 USPQ2d 1033, 1037 (Fed. Cir. 1990) ... ." *Bayer AG v. Schein Pharmaceuticals Inc.*, 64 USPQ2d 1001, 301 F3d 1306 (Fed. Cir. 2002).



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that concern. Failure to comply with the “best mode” requirement can no longer be raised as a defense to the validity of a patent.

One prong of the *sufficient disclosure* requirement for validity (“written description”) that has historically been viewed as a question of fact<sup>30</sup> is now best understood as a requirement to adequately identify the embodiments of the claimed invention, which can be alternatively expressed as demonstrating possession of a completed conception of the invention in the patent filing itself. This “possession” standard cannot be addressed, therefore, without addressing a question of law, not fact.<sup>31</sup> Thus, the existence of a completed conception of an invention being a legal question, its *alter ego* (whether the patent specification so demonstrates possession of such a conception) can scarcely be a factual one.

In a similar vein, because “enablement” is a question of law,<sup>32</sup> it is of no moment that “utility” is a question of fact.<sup>33</sup> The factual question of “utility” is a lesser included requirement under the legal test of enablement.<sup>34</sup> That the legal standard contains a factual predicate makes the ultimate determination no less a question of law.

As similar relationship holds as between the two prongs of the “sufficiently different” requirement for a valid patent. The “novelty” prong is a question of fact,<sup>35</sup> but the non-obviousness requirement is a question of law.<sup>36</sup> However, lack of novelty is a lesser included

<sup>30</sup> “This inquiry, as we have long held, is a question of fact. *Ralston Purina*, 772 F.2d at 1575. Thus, we have recognized that determining whether a patent complies with the written description requirement will necessarily vary depending on the context. *Capon v. Eshhar*, 418 F.3d 1349, 1357-58 (Fed.Cir.2005). Specifically, the level of detail required to satisfy the written description requirement varies depending on the nature and scope of the claims and on the complexity and predictability of the relevant technology. *Id.*” *Ariad Pharms. v. Eli Lilly & Co.*, 598 F.3d 1336 (Fed. Cir. 2010) (*en banc*).

<sup>31</sup> “Priority, conception, and reduction to practice are questions of law which are based on subsidiary factual findings.” *Cooper v. Goldfarb*, 154 F.3d 1321, 1327, 47 USPQ2d 1896, 1901 (Fed. Cir. 1998). “This court reviews a determination of prior conception, which must be proven by facts supported by clear and convincing evidence, as a question of law based on underlying factual findings.” *Gambro Lundia AB v. Baxter Healthcare Corp.*, 42 USPQ2d 1378, 110 F.3d 1573 (Fed. Cir. 1997).

<sup>32</sup> “Enablement is a question of law and is reviewed *de novo*. *In re Vaack*, 947 F.2d 488, 495 (Fed. Cir. 1991).” *Adang v. Fischhoff*, 286 F.3d 1346 (Fed. Cir. 2002).

<sup>33</sup> “Utility is a factual issue, which we review for clear error.” *In re Cartright*, 165 F.3d 1353 (Fed. Cir. 1999).

<sup>34</sup> “If the written description fails to illuminate a credible utility, the PTO will make both a section 112, p 1 rejection for failure to teach how to use the invention and a section 101 rejection for lack of utility. See M.P.E.P. § 706.03(a), form p 7.05.04. This dual rejection occurs because ‘[t]he how to use prong of section 112 incorporates as a matter of law the requirement of 35 U.S.C. § 101 that the specification disclose as a matter of fact a practical utility for the invention.’ *In re Ziegler*, 992 F.2d 1197, 1200, 26 USPQ2d 1600, 1603 (Fed.Cir.1993). Thus, an applicant’s failure to disclose how to use an invention may support a rejection under either section 112, p 1 for lack of enablement as a result of ‘the specification’s ... failure to disclose adequately to one ordinarily skilled in the art ‘how to use’ the invention without undue experimentation,’ or section 101 for lack of utility ‘when there is a complete absence of data supporting the statements which set forth the desired results of the claimed invention.’ *Envirotech Corp. v. Al George, Inc.*, 730 F.2d 753, 762 (Fed.Cir.1984); see also *In re Brana*, 51 F.3d 1560, 1564 n. 12 (Fed.Cir.1995) (The ‘absence of utility can be the basis of a rejection under both 35 U.S.C. § 101 and § 112 p 1.’); *In re Fouché*, 439 F.2d 1237, 1243 (CCPA 1971) (‘[I]f [certain] compositions are in fact useless, appellant’s specification cannot have taught how to use them.’); *Id.*

<sup>35</sup> “First, anticipation is a question of fact.” *In re Hyatt*, 211 F.3d 1367, 1371 (Fed. Cir. 2000) (citing *Bischoff v. Wethered*, 76 U.S. (9 Wall.) 812, 814–15 (1869)).

<sup>36</sup> “Obviousness is a question of law based on underlying facts.” *Group One Ltd. v. Hallmark Cards, Inc.*, 407 F.3d 1297, 1303 (Fed. Cir. 2005).

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requirement of the non-obviousness test.<sup>37</sup> Thus, both the validity tests of *sufficiently different* and *sufficiently disclosed* are ultimately questions of law that may require subsidiary fact-finding.

The remaining two validity requirements are legal standards. Whether a patent claim is *sufficiently definite* under 35 U.S.C. § 112(b) has long been understood as a question of law.<sup>38</sup> The same is the case for the assessment of whether a claimed invention is *sufficiently concrete*.<sup>39</sup> And, if the naming of the inventor were ever to be adjudicated as a validity issue, it too would be a question of law.<sup>40</sup>

The AIA has, thus, opened the door to having the construction of a patent fully a matter for the court in every patent infringement lawsuit, with the judge playing the role of construing the *valid* scope of each claimed invention in the patent.<sup>41</sup> Indeed, the exhaustive rationale set out in the Supreme Court's precedent on claim construction, being a matter for the court, would appear to apply with greater force and effect to the issue of *valid* claim construction.

The role of the jury in patent cases would and should, therefore, be focused on the questions of infringement and, whenever applicable, the damages to be awarded to the patent owner – where the jury makes a factual determination of infringement of a valid patent claim as construed by the court.

<sup>37</sup> “Though it is never necessary to so hold, a disclosure that anticipates under §102 also renders the claim invalid under §103, for ‘anticipation is the epitome of obviousness.’ *In Re Fracalossi*, 681 F.2d 792 (CCPA 1982).” *Connell et al. v. Sears, Roebuck & Co.*, 722 F.2d 1542 (Fed. Cir. 1983). “For prior art to anticipate a claim ‘it must be sufficient to enable one with ordinary skill in the art to practice the invention.’ *Minn. Mining & Mfg. Co. v. Chemque, Inc.*, 303 F.3d 1294, 1301 (Fed. Cir. 2002) (citing *In re Borst*, 345 F.2d 851, 855 (CCPA 1965)). ‘Whether a prior art reference is enabling is a question of law based upon underlying factual findings. *Id.* (citing *Crown Operations Int'l Ltd. v. Solutia, Inc.*, 289 F.3d 1367, 1376 (Fed. Cir. 2002)). Anticipation is a question of fact. See *id.* However, without genuine factual disputes underlying the anticipation inquiry, the issue is ripe for judgment as a matter of law.” *SmithKline Beecham Corp. v. Apotex Corp.*, 74 USPQ2d 1398, 403 F.3d 1331 (Fed. Cir. 2005).

<sup>38</sup> “A determination of whether a patent satisfies the written description and definiteness requirements of 35 U.S.C. §112 is also a question of law that we review *de novo*. *Union Pac. Res. Co. v. Chesapeake Energy Co.*, 236 F.3d 684, 692 [57 USPQ2d 1293] (Fed. Cir. 2001); *Amgen, Inc. v. Chugai Pharm. Co.*, 927 F.2d 1200, 1212 [18 USPQ2d 1016] (Fed. Cir. 1991).” *Glaxo Group Ltd. v. Apotex Inc.*, 71 USPQ2d 1801, 376 F.3d 1339 (Fed. Cir. 2004).

<sup>39</sup> “The issue on appeal, whether the asserted claims of the ‘184 patent are invalid for failure to claim statutory subject matter under 35 U.S.C. §101, is a question of law which we review without deference. See *Arrhythmia Research Tech. v. Corazonix Corp.*, 958 F.2d 1053, 1055-56 (Fed. Cir. 1992).” *AT&T Corp. v. Excel Communications Inc.*, 72 F.3d 1352 (Fed. Cir. 1999).

<sup>40</sup> “Inventorship is a question of law with underlying factual issues. *Bd. of Educ. v. Am. Bioscience*, 333 F.3d 1330, 1337 [67 USPQ2d 1252] (Fed. Cir. 2003).” *Checkpoint Systems Inc. v. All-Tag Security S.A.*, 412 F.3d 1331 (Fed. Cir. 2005).

<sup>41</sup> Under *Markman v. Westview Instrument, Inc.*, 517 U.S. 370, 388 (1996), it is for the court to construe the scope of protection afforded by a claimed invention, given the lack of clear precedent requiring the construction of a patent claim to be a question for the jury. (“Where history and precedent provide no clear answers, functional considerations also play their part in the choice between judge and jury to define terms of art. We said in *Miller v. Fenton*, 474 U.S. 104, 114 (1985), that when an issue ‘falls somewhere between a pristine legal standard and a simple historical fact, the fact/law distinction at times has turned on a determination that, as a matter of the sound administration of justice, one judicial actor is better positioned than another to decide the issue in question.’ So it turns out here, for judges, not juries, are the better suited to find the acquired meaning of patent terms.”) This same rationale should not surely apply to an AIA patent in the construction of the valid scope of protection afforded by a claimed invention.

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*A New Model for Adjudicating Patent Validity The Post-Grant Review*

The third aspect of the AIA design was to create an entirely new model for post-issuance review of the validity of an issued patent within the United States Patent and Trademark Office. In doing so, it rejected the two 20<sup>th</sup> century models – ex parte reexamination and inter partes reexamination. The examination-based approach to post-issuance review of these procedures had a problematic history. Both procedures were designed to consider only a limited set of validity issues – and typically required years in order to reach a final decision.

Looking outside the United States at post-issuance review procedures conducted in foreign patent offices, Congress found nothing worth introducing into U.S. patent law. Thus, post-grant review under the AIA was not designed to harmonize the new U.S. procedure with post-issuance procedures outside the United States. Indeed, it was explicitly intended as a repudiation of the practice under the European Patent Convention.

In Europe, post-issuance review takes the form of an “opposition.” These opposition procedures typically last years, limit the patentability issues that can be raised, commence with a technical and ultimately meaningless first stage as a prelude to final, legal phase often held years later, have no provisions for securing discovery and, once concluded, afford no opportunity for judicial review. As a litany of how an administrative adjudication should not be conducted, the AIA’s indictment of EPO practice could not be more complete.

In contrast to Europe, post-grant review in the USPTO was designed to run to completion within a one-year statutory deadline, allow any patent validity issue to be raised, produce a single written decision on patent validity during a one-stage procedure, afford discovery sufficient to vindicate the interests of justice, and provide for Federal Circuit review of the final written opinion of the administrative patent judge. The only common structural features worthy of note are that post-grant review and a European opposition proceeding both must be sought within nine months from the issue date of the patent and both permit the patent owner to amend the claims of the patent, albeit post-grant review was designed to have more limits on the ability to amend claims – consistent with its more streamlined nature.

By affording a full and fair opportunity to challenge any claim of an issued patent – coupled with a full and fair opportunity of the patent owner to defend the challenged patent – post-grant review was calculated to mesh fully with the AIA’s statutory reforms to the law of patentability. Absent the AIA’s transparent, objective, predictable and simple law on patentability, there would have been no feasible way to construct a post-issuance review procedure – full and fair to both patent owner and patent challenger – that could be concluded within the time period prescribed under the AIA.

An explicit intention of the post-grant review under the AIA patentability standards was that little, if any, discovery of the inventor would ever be necessary for the Office to discern if a claimed invention was sufficient different from prior public disclosures and public patent filings of others, sufficiently disclosed, sufficiently definite and sufficiently concrete. Similarly, there should be little reason in a typical post-grant review for the patent owner to need discovery of the

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patent challenger given the transparent and objective character of AIA patentability law. Of equal importance, neither the challenge nor the defense to the challenge would typically require third party discovery to achieve a fair result.

It is, thus, beyond imagination that anything like the structure of post-grant review could have been enacted had pre-AIA patentability law been retained. The discovery needed in order to determine if a prior invention constituted prior art – or a date of invention could be established to avoid *prima facie* prior art would have been formidable. The same is true of an assessment of whether the “best mode” requirement had been breached. No less a problem would have been an adjudication of the discovery-laden issue of whether secret uses or offers for sale existed sufficient for the inventor to forfeit the right to patent.

What does the future hold for this new model?

Foremost, the Office must make post-grant review work in practice. That may not be a trivial task. Like any adjudication of patent validity, it depends upon highly skilled, highly qualified adjudicators being able to effectively manage the proceedings. It is not a foregone conclusion that the Office will be able to hire, train and retain the administrative patent judges who will be adjudicating these proceedings in sufficient numbers to make the procedure work with consistent fairness in practice.

Second, the Office must be open to refining its procedures as experience under the new regime dictates. The Office’s initial rulemaking left much to be desired in this respect. For inexplicable reasons, it has elected to construe claims in post-grant review under the “broadest reasonable interpretation” standard – grossly unfair to patent owners. Its rulemaking also addresses discovery issues in a less than ideal manner – requiring conferences where clear and bright lines on discovery as a matter of right would be more appropriate.

Third, if post-grant review can mature to its promise of a full, fair and efficient way of resolving patent validity, there should be no reason why this model could not be adapted and expanded to address all contested issues of patent validity. This would mean removing patent invalidity, for example, as a defense to infringement of a patent. As noted above, the issue of the valid scope of protection afforded by a claimed invention might no longer be an issue in which the patent owner can assert a constitutional right to a trial by jury. Thus, it becomes a policy question for Congress whether such validity questions are to be universally assigned to an expert administrative body whose decisions are then subject to judicial review.<sup>42</sup>

<sup>42</sup> A look back at the enactment of the AIA would not be complete without at least some mention of the role for the new inter partes review procedure. It was to be a procedure built on the same framework as post-grant review, but limited to novelty and non-obviousness issues under § 102 and § 103 of the patent code arising from published prior art. It is available once the opportunity for post-grant review of a patent has ended – and a patent is open to inter partes review through the entire term of the patent. Congress repealed the highly defective inter partes reexamination statute at the time it created inter partes review, but inexplicable left third-party requests for ex parte reexamination in the statute. In an ideal world, Congress would have repealed inter partes reexamination and left ex parte reexamination on the books only if the request for ex parte reexamination had been made by the patent owner. In the post-AIA patent world, third-party requested and *sua sponte* Director-ordered ex parte reexamination have little justification. In that same ideal world, inter partes review would have been left out of the patent statute altogether. The latter omission would have had two benign consequences. First, it would have encouraged greater

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*The Global Mold and Model for International Patent Harmonization*

A fourth and final factor dominating the construction of the AIA's key provisions was harmonization-related. The AIA set out to define a patent law embodying the "best practices" for a global patent system. This vision, on issues of patentability, was that the United States patent law would be transformed, in one fell swoop, from a law that most foreign entities regarded as an abomination to a law that domestic constituencies can now advocate as a mold and model for the rest of the world to follow.

To accomplish such a transformative agenda required some bold steps. As noted above, a host of "loss of right to patent" provisions needed to be excised from old § 102 of the pre-AIA U.S. patent statute. Most importantly, the United States has now ended the very strange practice of destroying an inventor's right to patent an invention if even a single, secret, confidential offer for sale of the invention were made by the inventor more than a year before filing for a patent in the United States.

This type of forfeiture provision had little or no policy justification in a first-to-invent world. Its supposed objective was to encourage prompt patent filings for inventors that might be lulled into a wait-and-see dawdling under the first-to-invent principle.

However, it is all but unknown in foreign patent systems for an inventor to secretly commercialize a patented invention and then wait years before seeking a patent. It just does not happen, notwithstanding the foreign patent laws impose no such forfeiture of the right to patent based upon secret, pre-filing activities undertaken by or on behalf of the inventor.

The lack of dawdle has many reasons. Inventors who desire patent protection for their inventions are effectively compelled to make prompt patent filings once their inventions are ready for patenting, under either the first-to-invent or the first-inventor-to-file regimes. The single most important factor is the relentless march of the prior art and the level of skill in the art that takes place each day a patent filing is delayed. The march of time alone serves to frustrate the ability to satisfy the requirement for being sufficiently different from the prior art if patent filings are unduly delayed.

Thus, under the AIA's first-inventor-to-file rule, it was an easy choice by Congress to end the "forfeiture" doctrine based on pre-filing commercial activities involving the patented invention, as well as the other "loss of right to patent" provisions. Moreover, the questionable legality of such a forfeiture provision under TRIPS, especially in a first-inventor-to-file system,<sup>43</sup> represents

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use of post-grant review. The greater the use of post-grant review to seek cancellation of invalid patent claims, the lesser the burden such claims impose on the public if canceled early in the patent term. Second, since the preponderant use of inter partes review is likely to be in connection with patents already in litigation, the validity issues being decided in the Office are duplicative of validity issues that the district court would decide as part of the patent infringement or declaratory judgment action involving the patent. The scarce APJ resources which the Office will be obliged to devote to addressing inter partes review, would be better spent focusing on post-grant review, leaving it to the courts to address the § 102/§ 103 issues along with other invalidity issues.

<sup>43</sup> Article 27.1 of the World Trade Organization's TRIPS (Trade-Related Aspects of Intellectual Property) text, to which the United States is bound, provides that "Subject to the provisions of paragraphs 2 and 3, patents shall be

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yet another consideration that weighed in favor of rewriting § 102 of the patent statute to do nothing more than define subject matter that can qualify as prior art, delineate the exceptions from prior art that were required to assure an inventor- and collaboration-friendly patent system, and impose a novelty requirement as a condition for patentability.

The repeal of the forfeiture doctrine epitomizes the salient feature of a patent system that is built on “best practices.” In this case, the United States followed foreign patent laws. However, given that the AIA patentability standards to be imposed were to reflect the best patent policy, much in the AIA diverged – quite intentionally – from provisions in foreign patent laws.

The AIA, grounded on “best practices,” dictated that the U.S. first-inventor-to-file rules would be distinct from those of major foreign patent systems. For example, where the European Patent Convention provides that the various patent applications of an inventor, the inventor’s co-workers and the inventor’s collaborators can be used as prior art, one against the other, based on the order in which the patent filings were made. Indeed, under the European rule, the prior art of such earlier-filed patent applications can be used to destroy novelty of a claimed invention in a later-made patent filing. However, under European laws, the patent filings that can be used to destroy novelty are then completely ignored in assessing non-obviousness.

The AIA first rejected the approach that some public patent filings should be prior art for assessing novelty, only to then be disregarded in determining non-obviousness, as too complex on one hand and too punitive on the other hand. In cases where a team of inventors are at work collaboratively, special anti-self-collision rules were needed.

First, the AIA provided that subject matter either is or is not prior art and, if it is, represents prior art for both novelty and non-obviousness purposes. No other approach could be as simple.

Second, earlier public patent filings that name the same inventor, or are commonly owned, or are the product of a joint research agreement with respect to a later patent filing can be entirely exempted as prior art with respect to the later patent filing. In this respect, the inventor’s own work, to be found in its own or related patent filings, cannot be held against it under the AIA.

By rejecting both the concept of “novelty-only” prior art and the doctrine of “self-collision” between related patent filings, the AIA forged a new balance between simplicity and predictability in the operation of a patent system and inventor and collaboration friendliness. In an effort to assure that a community of related and valid patents could issue under these new provisions, Congress effectively expanded the situations where obviousness-type double patenting might exist.<sup>44</sup>

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available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application. Subject to paragraph 4 of Article 65, paragraph 8 of Article 70 and paragraph 3 of this Article, patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced.” Articles 27.2 and 27.3 provide only limited types of subject matter that can be declared patent ineligible. Nothing in TRIPS sanctions a forfeiture doctrine based upon secret activities that never become public and have no implication whatsoever on the state of the art to which the invention pertains.

<sup>44</sup> Wisely, the House Judiciary Committee is now considering legislation that would codify the law on obviousness-type double patenting for first-inventor-to-file patents. If a patent bill in this Congress can include such a provision,

***The Future – The Unfinished Congressional Agenda to Complete the AIA Revolution***

The process of perfecting the work of the AIA has already begun. A set of highly desirable technical corrections to the AIA were enacted into law at the end of the 112<sup>th</sup> Congress and became law in January of this year.<sup>45</sup> Those efforts have simplified the task of considering – indeed, paved the way for – a further set of AIA-related enhancements to the U.S. patent law.

The technical amendments passed at the end of the 112<sup>th</sup> Congress were followed early in the new Congress with a House Judiciary Committee “Chairman’s Patent Discussion Draft,” a draft bill “To amend title 35, United States Code, and the Leahy-Smith America Invents Act to make improvements and technical corrections, and for other purposes.” It was released on May 23, 2013 by Chairman Goodlatte.<sup>46</sup>

Section 9 of the May 23 Discussion Draft contained a number of important AIA-related measures that, again, reflected the laudable and continuing commitment by both the House and Senate Judiciary Committees to seeing the AIA reflect its full promise. It offered possible legislative changes to further refine the AIA. Fortunately only a very limited number of quite narrow and targeted modifications of the AIA’s provisions now require additional attention by Congress. Some of these modifications were in the May 23 Discussion Draft,<sup>47</sup> others were not.

A few provisions in Section 9 of the May 23 Discussion Draft, which are not integrally related to the AIA, have drawn controversy in their current form<sup>48</sup> or might best proceed through a more radical reshaping of current provisions of the patent law.<sup>49</sup> Putting these changes aside for the

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it would further cement the first-inventor-to-file provisions of the AIA as a global “best practice” – a perfected alternative to the EU approach of a complex “novelty-only” treatment for earlier-filed public patent filings and a ruthless self-collision doctrine that impacts inventors, their co-workers and other collaborators adversely. See the discussion *infra*.

<sup>45</sup> Pub. Law 112-274, 126 STAT. 2456 (Jan. 13, 2013), Leahy-Smith America Invents Technical Corrections, at 126 STAT. 2457.

<sup>46</sup> See [http://judiciary.house.gov/news/2013/05232013\\_5.html](http://judiciary.house.gov/news/2013/05232013_5.html) linking to the text of the bill at <http://judiciary.house.gov/news/2013/05232013%20-%20Patent%20Discussion%20Draft.pdf>.

<sup>47</sup> Important and highly desirable provisions on double patenting, claim interpretation in post-grant review and inter partes review, and judicial estoppel in post-grant review were included in Section 9 of the Discussion Draft.

<sup>48</sup> Section 9(a) of the discussion draft would repeal the right to file a civil action in order to secure a patent. This provision, given its ancient roots and remedial character, has drawn criticism. In addition, it lacks a strong connection to the AIA. If this provision remains in any reform bill, much of the criticism of it on the merits might be mollified if the repeal applied only to first-inventor-to-file patents. With the transparent and objective standards for patentability, the rare situations in which a civil action would be arguably appropriate to assure that an inventor has a full opportunity to make its case for patentability should be vanishingly small.

<sup>49</sup> The provisions in Section 9(f) of the Discussion Draft would make changes to the patent term adjustment provisions of the patent law that were enacted in 1999. The PTA provisions added to the patent law in 1999, although well-intentioned, have no clear public policy justification. Their aim was to provide some remedy in situations where patent owners were seeing to have a patent issue promptly, but – despite the patent applicant’s efforts to expedite patent examination – delays in the USPTO resulted in delays in issuing the patent. The remedy under the 1999 PTA provisions was to attempt to make up for the post-issuance patent term lost through USPTO delays by adding additional patent life 20 years later – at the very end of the 20-year patent term, when the patent is otherwise set to expire. This approach, however, makes no real economic sense for the vast majority of patent owners – most patented inventions become technologically or commercially obsolete well before the original 20-year term expires. What might better serve the public interest and the interest of inventors seeking prompt patent

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present, the remainder of Section 9's proposed improvements, together with a few additional AIA-related proposals below, would integrate perfectly with parallel and complementary efforts contained in the May 23 Discussion Draft that are specifically intended to reduce the litigation burden on the U.S. patent system.

Some such AIA-related changes would *clarify* congressional intent in enacting the AIA, where such clarification would avoid the need to resort to litigation to achieve the needed clarification otherwise.

Other changes would *correct* provisions in the AIA or in its implementation by the USPTO, where the need for such corrections is manifest.

Finally changes are needed to *complete* the AIA's objective of implementing the 2004 recommendations<sup>50</sup> of the National Research Council of the National Academies of Science. This latter category of changes remains of importance given the thoughtful and thorough recommendations made by the National Academies following an intensive, four-year study of the U.S. patent system.<sup>51</sup>

To fully realize this *clarify, correct and complete* agenda, the following issues would need to be considered in any bill seeking to complete to vision for the AIA:

**1. Confirm Congressional Intent to Repeal the "Loss of Right to Patent" Provisions of the Pre-AIA Patent Law and Limit "Prior Art" under § 102(a)(1) of the Patent Law to Publicly Accessible Subject Matter**

As outlined above, one of the landmark achievements of the AIA was the adoption of fully transparent and objective criteria for determining patentability for an invention. To accomplish

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issuance would be to repeal the patent term adjustment provisions outright for first-inventor-to-file patents and then afford a patent owner to right to elect to have a patent issue at the three-year mark after the original (nonprovisional) patent filing date, with the USPTO then addressing any remaining patentability issues in a post-patent issuance continued examination that could follow the model of the reexamination provisions under the new supplemental examination procedure under § 257 of the patent code. To permit time for the development of an optimal policy response to the issues presented in Section 9(f), it might be desirable to separate this topic from the Discussion Draft and allow a consensus to develop on how patent term adjustment might be repealed, at least for first-inventor-to-file patents, rather than merely revised.

<sup>50</sup> Stephen A. Merrill, Richard C. Levin, and Mark B. Myers, Eds., "A Patent System for the 21<sup>st</sup> Century," Committee on Intellectual Property Rights in the Knowledge-Based Economy, Board on Science, Technology, and Economic Policy, Policy and Global Affairs Division, National Research Council, National Academies of Science (2004). See <http://www.nap.edu/html/patentsystem/0309089107.pdf>.

<sup>51</sup> Some AIA-related topics can be deferred until a consensus develops on how best to implement such changes. In testimony before the House Judiciary Committee's IP Subcommittee at a hearing on February 1, 2012, "Prior User Rights: Strengthening U.S. Manufacturing and Innovation," I urged action to develop a consensus on completing needed improvements to the "prior user" defense to patent infringement. Since then, it appears that the efforts to find the consensus needed have yet to bear fruit. Thus, in my testimony today, I will not be urging that Congress take up at this time the issue of needed changes to § 273 of the patent code as amended by the AIA. Unlike the relatively simple and straightforward legislative proposals for addressing the residual issues associated with the National Academies' recommendations, the compromises needed to successfully address the prior user defense are likely to be much more nuanced and complex. See <http://judiciary.house.gov/hearings/Hearings%202012/Armitage%2002012012.pdf>.



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this result, Congress needed to abolish a set of “loss of right to patent” provisions that found legislative sanction in the pre-AIA patent law.<sup>52</sup> There would appear to be no possible doubt that Congress did so, but we now have on the public record protestations to the contrary from such doubters.

When § 102 of the patent code was originally enacted in 1952, Congress gave it the title, “Conditions for patentability; novelty and *loss of right to patent*” (emphasis added), the latter phrase being placed into § 102 in recognition of the “loss of right to patent” doctrines to be found within its four corners. These “loss of right to patent” provisions were to be found, among other places in the words “in public use or on sale” in pre-AIA § 102(b) of the patent statute. The relevant portion of pre-AIA § 102(b) provides simply that:

A person shall be entitled to a patent [for an invention] unless—  
...  
(b) the invention was ... in public use or on sale ... more than one  
year prior to the date of the application for patent ...

While pre-AIA § 102(b), as plainly drafted, covered acts both of the inventor and of persons unrelated to the inventor, the acts of placing an invention “in public use” or “on sale” were judicially interpreted to have one meaning when the acts involved were undertaken by or at the behest of the inventor and an entirely contrary meaning when the acts involved were undertaken by persons entirely unrelated to the inventor.

The preceding sentence bears repeating – because it epitomizes the absurd situation Congress faced in attempting to reform the patent law. The legislative history of the 1952 Patent Act explicitly concedes<sup>53</sup> that Congress was declining to accurately codify the patent law. It almost appears as though Congress essentially gave up in dealing with the patent community by yielding to that community’s apparent desire for a somewhat occult statute – and knowingly wrote provisions that were not to be interpreted as written.<sup>54</sup>

Under § 102(b), using the only possible interpretation consistent with the statute as written, the term “in public use” has been construed judicially to mean acts making the subject matter of the use *available to the public* whenever the user was unrelated to the inventor. In other words, the adjective “public” modifying the noun “use” is given its only possible interpretation. Thus, the uses undertaken by unrelated persons that were not publicly accessible, that is, uses undertaken in secrecy by persons unrelated to the inventor, did not result in the subject matter used being *in public use* for the purposes of creating patentability-defeating prior art under § 102(b).

Under the same § 102(b), using an interpretation that is in clear defiance of the statute as written, the term “in public use” has been construed judicially to mean acts undertaken in total secrecy whenever the use was by or on behalf of the inventor. A public use, thus, could be “public” in

<sup>52</sup> See, generally, my May 16 testimony addressing the issue of § 102(a)(1)’s modifications to pre-AIA patent law: <http://judiciary.house.gov/hearings/Hearings%202012/Armitage%2005162012.pdf>

<sup>53</sup> See S. Rep. No. 82-1979 at 17 (1952), *reprinted in* 1952 U.S.C.A.N. 2394, 2410.

<sup>54</sup> See Robert A. Armitage, “Understanding the America Invents Act and Its Implications for Patenting,” 40 AIPLA Q.J. 1 (2012), pp. 40-45 available at [http://www.uspto.gov/aia\\_implementation/armitage\\_pdf.pdf](http://www.uspto.gov/aia_implementation/armitage_pdf.pdf).

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no sense of the word whatsoever. In effect, the courts interpreted the same passage of the statute in an opposite, inconsistent, and linguistically indefensible manner.<sup>55</sup>

It was this bizarre statutory construction of an inventor's non-public, but nonetheless "public use" that made rendered § 102(b) a "loss of right to patent" provision specific to inventor-related conduct. Any of 7 billion human beings could invent and secured a valid patent for the invention that one inventor could not because, for the 7 billion, there would be no "prior art" based on a public use to bar the grant of the patent. However, for the one in 7 billion human beings who had made a secret use of the invention more than one year before seeking a patent in the United States, that secret use would be deemed a "public use" and defeat the secret user's right to patent the invention.

The forfeiture doctrine is, of course, antithetical to the AIA because it represents the height of non-transparency. A member of the public seeking to understand if a patent is valid is seldom privy to the inventor's private life and all the inventor's secret acts. The forfeiture doctrine, thus, was precisely the type of patent law provision the Congress was seeking to eradicate with the AIA.<sup>56</sup>

What Congress did to eradicate this bizarre-in-the-extreme body of law for the new first-inventor-to-file patents under the AIA was quite thorough.

Under the AIA, the new § 102 entirely eliminated the entire category of "loss of right to patent" provisions. The new § 102 contains only a definition for "prior art," as well as express exceptions from the prior art, for the purpose of assessing the novelty of a claimed invention is to be assessed.

Hence the title for new § 102 no longer references "loss of right to patent" provisions. The title for the section is simply, "Conditions for patentability, novelty." Under new § 102(a), the title of this new subsection becomes "Novelty, Prior Art," recognizing that subsection (a) of § 102 provides the new, albeit somewhat implicit, definition for the subject matter that represents prior art to any claimed invention in an application for patent.

<sup>55</sup> The term "used" further appears in pre-AIA § 102(a) to define subject matter that can constitute prior art, but only when the use was undertaken by someone other than the inventor. In pre-AIA § 102(a), the verb "used" was *not* modified by the adverb "publicly" in the statute, which could, of course, have led to the conclusion that prior art might be created when subject matter was used in secret. Not so. Again the legislative history of the 1952 Patent Act explains the "do-not-interpret-as-written" nature of pre-AIA patent law, "The interpretation by the courts of paragraph (a) [of pre-AIA § 102] as being more restricted than the actual language would suggest (for example, known has been held to mean publicly known) is recognized but no change in the language is made at this time." *Id.*

<sup>56</sup> In the pre-AIA statute, the words "in public use" were to be found as part of a larger clause that read "in public use or on sale." Perhaps unsurprisingly, the words "on sale" in § 102(b) were given a similar judge-made dichotomy of meaning depending upon whether the activities in question had been undertaken by unrelated persons or by the inventor. For an unrelated person, an invention was not "on sale" until it was publicly accessible – that is readily available for purchase. For the inventor, an invention could be on sale even if (1) it was not actually available for purchase; (2) had never been actually made in its physical form so that it could not actually be purchased and, as yet, only existed in the mind of the inventor; and (3) only a single offer of sale had ever been made irrespective of whether a sale had ever been consummated. The non-transparency of this personal forfeiture bar of pre-AIA patent law was only matched by its absurdity as a matter of being good patent policy.

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The important change, however, is not a cosmetic title change. As a means of underscoring that subject matter could not represent prior art under § 102(a)(1) absent becoming publicly accessible, Congress wrote new § 102(a) using the ultimate in explicit terms –by adding the limiting words “*or otherwise available to the public*” to “public use” to thereby eliminate any possible alternative interpretation of the preceding categories of prior art to be found in the new § 102(a)(1) (“patented, described in a printed publication, or in public use or on sale”).

Thus, whether an subject matter constitutes prior art on account of being patented, described in a printed public or in public use or on sale, such subject matter can constitute prior art only to the extent rendered publicly accessible – available to the public – by virtue of the disclosure.

The Office, in providing guidance to patent examiners was unequivocal in its faithfulness to the new statute and the expressed intent of Congress in crafting the new § 102, both in imposing an overarching requirement for public accessibility on all subject matter qualifying as prior art and, thereby, eliminating the possibility that an inventor’s secret, pre-filing activities could thereby result in a forfeiture of the right to patent the invention under new § 102(a)(1):

The starting point for construction of a statute is the language of the statute itself. A patent is precluded under AIA 35 U.S.C. 102(a)(1) if “the claimed invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention.” AIA 35 U.S.C. 102(a)(1) contains the additional residual clause “or otherwise available to the public.” Residual clauses such as “or otherwise” or “or other” are generally viewed as modifying the preceding phrase or phrases. Therefore, the Office views the “or otherwise available to the public” residual clause of the AIA’s 35 U.S.C. 102(a)(1) as indicating that secret sale or use activity does not qualify as prior art.<sup>57</sup>

The same clear view of both the statute and the congressional intent in enacting the statute has been reflected in comments received by the Office in response to its request for private-sector input in formulating its guidance on the implementation of § 102(a)(1)’s first-inventor-to-file provisions. One example of this comes from the Section on Intellectual Property Law of the American Bar Association:

ABA IPL respectfully submits that the passage “otherwise available to the public” reflects the touchstone of what constitutes prior art under the AIA under section 102(a)(1). This section requires availability to the public or public accessibility is an overarching requirement. Such accessibility is critical to provide a simpler, more predictable and fully transparent patent system. As such, for a “public use,” for a determination that an invention is “on sale,” as well as to assess whether an offer for sale has been

<sup>57</sup>“Examination Guidelines for Implementing the First Inventor To File Provisions of the Leahy-Smith America Invents Act, at 78 Fed. Reg. 11059, 11062 (Feb. 14, 2013).

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made, the statutory requirements under the AIA require a public disclosure. Thus, non-public offers for sale (and non-public uses) would not qualify as prior art under the AIA.

The statute is not silent on the issue of whether each category of prior art under section 102(a)(1) requires public accessibility. The statute is explicit that this is the case. Moreover, in interpreting section 102(a)(1), the Office should consider the entirety of the new statutory scheme. Congress was globalizing prior art, whatever activity constitutes a prior art disclosure if undertaken in the United States, equally represents prior art if instead the activity took place anywhere else in the world. Moreover, Congress collapsed pre-AIA section 102(a) and section 102(b), which respectively dealt with prior art activities “by others” and prior art activities “by anyone” taking place more than one year prior to the effective filing date in the United States for a claimed invention. New section 102(a)(1) is unambiguously written to cover activities of anyone, taking place anywhere, at any time before the effective filing date for a claimed invention.

If section 102(a) is read to include “offers for sale” that do not constitute publicly available disclosures, then it would render as secret offers made by anyone, anywhere in the world, at any moment in time before a patent on the claimed invention was filed patentability-defeating prior art. Given the plain statutory language imposing the overarching requirement for public accessibility, the unambiguous statutory text would effectively be turned on its head by this interpretation. The Section does believe that there is any basis on which the Office can, under the AIA, expand a very narrow pre-AIA secret “on sale” bar – one that only applied to disclosures made more than one year before a U.S. patent filing, only applied to offers made in the United States, and only applied if the activity was undertaken by or at the behest of the inventor/patentee – to an anywhere, anywhere, by anyone bar to patenting.

Thus, whether looking at the phrase “or otherwise available to the public” in total isolation, or in context with the remainder of section 102, or in context with the remainder of the coordinated statutory changes made under the AIA, the Section believes that the statute can only be given one construction, a construction confirmed through the legislative history of the statute, that an “offer for sale” can constitute prior art under section 102(a)(1) only

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to the extent the activities constituting the offer amount to a disclosure available to the public.<sup>58</sup>

However, where the USPTO, ABA IPL Section and other notable commentators have found utter clarity, others have seen at least “arguably ambiguous” language. Perusing the Internet, patent practitioners have nonetheless suggested “possible ambiguity” in their analysis of § 102(a)(1) of the AIA:

The revised section 102(a)(1) includes new arguably ambiguous language that has been debated in various legal commentary. The new section provides that a person will be entitled to a patent unless “the claimed invention was patented, described in a printed publication, or in public use, on sale, or *otherwise available to the public* before the effective filing date of the claimed invention.” (Emphasis supplied). Some have interpreted the italicized language as merely a catch-all, seeking to capture other unspecified types of disclosures to the public, but not as necessarily bearing on the series of items preceding it (“patented, described in a printed publication, or in public use, on sale”). *According to this reading, the prior precedent in the case law regarding the secret uses and/or sales would not be altered.*<sup>59</sup> [Emphasis supplied.]

Other commentators have joined onto the potential ambiguity bandwagon:

The §102(a)(1) words, “or otherwise available to the public,” *create at least two ambiguities*. Fundamentally, the issue is this: is this new end phrase intended as a “catch all” to cover other public disclosures such as oral public presentations at technical meetings, internet postings, etc.? This interpretation would extend the scope of prior art to cover some public disclosures that might not already be clearly covered by the existing U.S. judicial interpretations of a “printed publication” or a “public use.” This interpretation would also be consistent with the intent of harmonization with other countries’ patent laws. Alternatively, was this new §102(a)(1) language “or otherwise available to the public” really intended to narrow the below-discussed long judicially established meanings of, and/or exceptions to, the words “in public use” and “on sale”?

<sup>58</sup> Comments from the ABA Section of Intellectual Property Law on Changes to Implement the First Inventor to File Provisions of the Leahy-Smith America Invents Act, 77 Fed. Reg. 43742 (July 26, 2012) and Examination Guidelines for Implementing the First Inventor to File Provisions of Leahy-Smith America Invents Act, 77 Fed. Reg. 43759 (July 26, 2012). See [www.uspto.gov/patents/law/comments/aba-ipl\\_20121001.pdf](http://www.uspto.gov/patents/law/comments/aba-ipl_20121001.pdf) at pp. 4-5.

<sup>59</sup> Robert L. Maier, “The Big Secret of the America Invents Act,” *Intellectual Property Today* (Dec. 2011), pp. 18-20. See [http://www.bakerbotts.com/files/Uploads/Documents/Maier\\_DEC11.pdf](http://www.bakerbotts.com/files/Uploads/Documents/Maier_DEC11.pdf) at p. 18.

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This interpretation can also be argued as supporting intended harmonization.<sup>60</sup>

While we can adjust to new bars under the AIA, if we understand them, many relevant provisions of the AIA are poorly worded and do not match the wording under current law, making such determinations difficult. *For example, the legislative proponents of the AIA claimed that secret offers for sale of a product or service would not create a bar under the AIA, but the AIA does not clearly state this fact.* Legislative history was introduced in both the House and Senate to clarify this and other points, but such history will not be binding upon courts hearing appeals of rejected applications or invalidated patents until some five to ten years from now. Hence, *it will be many years before we have a clear understanding of the meaning of the new law.*<sup>61</sup> [Emphasis supplied.]

Finally, distinguished patent academicians have urged the Office to turn its back on congressional intent and keep archaic and non-transparent aspects of the pre-AIA patent law in force, again citing the potential for ambiguity in the new law:

Guidelines [of the United States Patent and Trademark Office] argue that the phrase “on sale” under AIA § 102(a)(1) should be given a different meaning than this phrase has traditionally been given under § 102(b) of the 1952 Patent Act. The Guidelines give two reasons: (1) the addition of the phrase “or otherwise available to the public” in AIA § 102(a)(1); and (2) statements made in the legislative history to the AIA. I believe this interpretation is a mistake. According to an extensive body of case law under the 1952 Act, both “public use” and “on sale” prior art categories include material that can be quite confidential, or at any rate essentially undiscoverable by members of the general public. A consistent line of cases, for example, holds that confidential sales or offers places an invention “on sale” for purposes of novelty.

...  
With respect to the AIA language “or otherwise available to the public,” I believe that this phrase carries forward implicitly the traditional meaning of “disclose”, which includes of course the possibility of limited public disclosure. I do not believe that “available ... to the public” has the same meaning as “publicly

<sup>60</sup> Paul Morgan, The Ambiguity in Section 102(a)(1) of the Leahy-Smith America Invents Act, 2011 Patently-O Patent Law Review 29. See <http://www.patentlyo.com/files/morgan.2011.aiaambiguities.pdf> at p. 30.

<sup>61</sup> Timothy D. Casey and Juan C. Quiroz, “White Paper: What Innovators Need to Know –and Need to Do –under the America Invents Act,” American Innovators for Patent Reform (January 2012). See <http://www.aminn.org/files/WhitePaper-AmericaInventsAct-Jan2012-2.pdf> at p. 3.

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disclose” under the AIA grace period provision, AIA § 102(b)(1)(B).

...  
Thus from the outset, I understand the “otherwise available” subcategory to relate to, modify, and apply to ONLY what I call “Category 2” types of prior art in AIA § 102(a)(1). This matters because both types of prior art in what I call Category 2 (on sale and in public use) include, under established case law, what might be termed very limited or even secret “disclosures.” Confidential sales and non-revealing public uses are examples of this. This leads to a simple point: If both enumerated types of Category 2 prior art include very limited or even secret types of disclosures, then the omnibus phrase at the end of the Category 2 list – “otherwise available to the public” – must by implication include this possibility also. So “otherwise available to the public” should be interpreted consistently with “public use” under § 102(b) of the 1952 Act (and, for that matter, with the implicit meaning of “known or used” under 1952 Act § 102(a)). Which means: even extremely limited disclosures [sic, disclosures] can make a prior art reference “available to the public” under AIA § 102(a)(1).

...  
For these reasons, I would request that PTO reconsider its position with regards to the interpretation of the AIA, particularly with respect to the meaning of AIA § 102(a)(1). Existing case law should continue in force, including the availability of confidential sales and nonrevealing [sic, non-revealing] public uses as prior art events under the Patent Act.<sup>62</sup>

The Office will shortly commence the active examination of patent applications under the new first-inventor-to-file regime of the AIA, the first of which were filed in March of this year. It is simply unacceptable to have any residual ambiguity left in the intent of the new patent law at the start of this historic new era in U.S. patent law.

It is all the more untenable for such residual ambiguity to potentially exist for a decade or longer – as patents are filed, examined, issued, litigated, and become subject to a definitive judicial resolution, possibly by the United States Supreme Court itself. *This would mean that literally patent examiners will be examining millions of individual patent filings under a cloud of possible ambiguity* – albeit it may be only the wispiest of cirrus clouds of possible ambiguity – before the issue could reach a final judicial resolution.

What could cost the patent system millions to billions of dollars of uncertainty-driven costs, Congress could obviate with less than a dozen-word legislative fix.

<sup>62</sup> Comments on “Examination Guidelines for Implementing the First-Inventor-to-File Provisions of the Leahy-Smith America Invents Act,” Oct. 12, 2012 by Professor Robert P. Merges. See [http://www.uspto.gov/patents/law/comments/r-merges\\_20121012.pdf](http://www.uspto.gov/patents/law/comments/r-merges_20121012.pdf).

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The optimal path forward to address this issue, now that it has been joined, is for Congress is to speak again – and speak soon – and short-circuit the prospect of continuing uncertainty, controversy, and ultimately litigation. Congress can act most quickly by addressing this issue in any patent reform bill introduced as a follow-on to the May 23 Discussion Draft.

There are many ways in which this could be accomplished.

Congress could fully resolve any ambiguity by simply excising the unneeded words “in public use or on sale” from new § 102(a)(1). For many reasons, such a simple approach would be the optimal choice.

At best, the words “in public use or on sale” have had no one consistent meaning in the pre-AIA patent law. Under the new AIA statutory framework, they are at most superfluous given the clear direction of Congress in the terminal clause (“or otherwise available to the public”) that any type or form of disclosure of subject matter made available to the public was to constitute prior art under § 102(a)(1).

Once these tortured and tainted words are gone from the statute, the residual language in § 102(a)(1) would assure that the term “available to the public” would be interpreted consistent with congressional intent, requiring public accessibility for a disclosure to constitute prior art.

The terminology that would remain in the new statute, “patented, described in a printed publication, or otherwise available to the public,” would combine the two historic categories prior art that have always required public accessibility (*i.e.*, patents and printed publications) with a third – availability to the public – that could not be misunderstood, even by the most determined academicians straining to find ambiguity, as providing anything other than a public accessibility standard for all prior art.

Moreover, this simple amendment to the AIA could be accompanied, if the “belt” were thought to need “suspenders,” by a legislated rule of construction that spelled out the public accessibility requirement in equally unambiguous language.

In brief, given the ruthlessness with which commentators have sought to uncover possible ambiguity in the AIA, Congress could and should be equally ruthless in squelching such bases for asserting ambiguity. If there is a single priority in this Congress for needed patent legislation, it should be settling for all time the meaning to be given to the AIA’s standard for patentability.<sup>63</sup>

<sup>63</sup> Some criticism of the provisions of § 102(b) of the new patent code have been leveled. This section of the new patent code addresses prior art issues for inventors who publish on an invention before making their patent filings on the invention. The criticism has come largely from within the university community. Their specific allegations are that the “grace period” provisions of the AIA are either defective or inferior to the corresponding provisions of the pre-AIA patent law. As a consequence, proposals for amendments to § 102(b) of the new patent code have been authored during the past year to address this alleged deficiency. Manifestly, it would be worthwhile for Congress to address the existing provisions of § 102(b) of the new patent statute as they relate to the inventor’s pre-filing public disclosures and their impact on patents that are later sought on the published invention. However, this look at the need for amendments to the AIA’s provisions should not be undertaken based on unsupportable contentions that the AIA provisions are in any respect defective – or inferior in protecting inventors compared to the pre-AIA patent law. The case for further congressional scrutiny of the AIA’s amendment to § 102 of the patent statute should rest on



## 2. *Eliminate the “Inequitable Conduct” Doctrine*

As noted above, the AIA provided a remarkable new remedial provision to address the “inequitable conduct” plague in the form of the new “supplemental examination” procedure. This was the half-a-loaf compromise when efforts to eliminate outright the “inequitable conduct” doctrine failed. Those efforts failed, at least in part because of elements in the patent profession that advocated for the continuance of this unenforceability doctrine. Even the supplemental examination compromise, as fair and fair-minded any AIA reform, was opposed by some of the leading lights of the patent profession. A wise Congress enacted it nonetheless, albeit over their protestations.

The AIA “inequitable conduct” debate at least had the virtue of laying bare the absurdity of continuing this judge-made law. For a complete fraud on the United States Patent and Trademark Office, one that leads to the procurement of a wholly invalid patent, the inequitable conduct doctrine extracts no incremental penalty whatsoever on the fraudfeasor. All invalid patents are inherently unenforceable.

For misconduct of the most benign nature imaginable, and with no consequentiality whatsoever to the validity of even a single claim in a patent, the doctrine imposes the harshest consequences imaginable – a wholly valid patent, meeting all the stringent requirements for validity, is rendered permanently unenforceable, even if the patent owner itself had no culpability in the conduct at issue. In no other body of law, does the punishment meted out vary inversely with the severity of the misconduct, much less arbitrarily fall on persons, irrespective of any involvement in the misconduct – even on persons who may have done everything reasonable to prevent the misconduct.

With a transparent, objective, predictable and simple law on patent validity, with a transparent process for patent examination with public participation in the process that must be taken into account before a decision can be made to issue a patent, and with the ability of members of the public to seek cancellation of a patent in the Office on any ground of validity immediately upon the issuance of a patent, all the predicates on which this judge-made law was originally concocted have vanished from U.S. patent law.

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entirely different grounds. First, in § 102(b)(1)(B) and § 102(b)(2)(B) of the new patent code, Congress introduced novel concepts of remarkable complexity to assist inventors who publish before making their patent filings. These novel statutory concepts will be difficult to administer and apply. Moreover, their effectiveness has been assailed by some within the university community. Taken together, these factors make a strong case for the repeal of these subparagraph (B) provisions if a more effective and simpler alternative to them could be crafted. Indeed, the best rationale for Congress to address the provisions in § 102(b) of the new statute is that simpler and more effective alternatives to the existing subparagraph (B) provisions exist and have achieved a consensus as to their merits. In the end, congressional action on this issue should be based on a fair and balanced assessments of the merits of further enhancing the friendliness of the § 102(b) provisions to inventors, given that the AIA patent law is already far more inventor friendly, especially for inventors who publish on an invention before making a patent filing on the invention, at least compared to the pre-AIA patent law. The appendix to this paper offers a comparative analysis of the AIA’s provisions in this respect with those of the pre-AIA patent law. It dispels any notion that that § 102(b) of the new patent statute should be amended for any reason other than to further enhance an already superior patent law – at least in terms of friendliness to inventors who publish before making patents filings.

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Lastly, almost all of the consequences of retaining the “inequitable conduct” doctrine are unintended ones. Rather than providing an incentive to engage in “equitable conduct,” the doctrine has created an incentive to conduct patent prosecution in a wasteful and inefficient manner (both from the perspective of the patent applicant and the patent examiner) either to avoid inequitable conduct allegations or to optimize the defense against such allegations once they arise in litigation. Inventors “over-disclose” information of marginal materiality to patent examiners in hopes that the reams of information provided to patent examiners will prevent allegations of concealment. In another perversity, inventors are loath to characterize or otherwise explain the significance or possible relevance of any of the information being provided to patent examiners – in hopes that such silence will avoid allegations of misrepresentations in such explanations.

The 2004 report of the National Academies of Science included a recommendation that the “inequitable conduct” doctrine be eliminated in the hope of a more objective patent law. Now that the AIA is the law, it may be possible for Congress to wipe out this judge-made doctrine. Manifestly, it should have no role in our 21<sup>st</sup> century patent law.<sup>64</sup>

### 3. *Complete the Elimination of the “Best Mode” Requirement*

As part of the AIA reforms, Congress wisely eliminated any consequences from an inventor’s failure to comply with the so-called “best mode” requirement. However, for largely inexplicable reasons, Congress left the “best mode” requirement on the books. Commentators have labeled this congressional choice a “pseudo-elimination” of the requirement and the “worst possible choice,” because, according to these commentators, “Congress may have left foreign innovators better off than their U.S. counterparts, tilting the playing field from uneven in one direction to uneven in the other.”<sup>65</sup>

Whether the foregoing contention is correct or not, Congress should remove this largely technical defect in the AIA through an outright repeal of the requirement. The pre-AIA “best mode” requirement was inserted into the patent statute in 1952 without a full appreciation of the degree of non-transparency and subjectivity being injected into the patent system – with no offsetting benefits for inventors, their competitors or the broader public.

The National Academies made two separate recommendations in 2004 that the requirement be eliminated outright. One National Academies’ recommendation cited the requirement’s adverse

<sup>64</sup> Beyond the scope of this review are the full force of the consequences that should befall the perpetrator of a fraud on the Office in connection with any matter before the Office, including in the pursuit of a patent or in the conduct of a patent challenge under post-grant review, inter partes review or the like. For example, attempting to enforce a patent procured through fraud can give rise to antitrust liability, including the prospect of paying treble damages and attorneys fees. *Walker Process Egmt., Inc. v. Food Machinery Corp.*, 382 U.S. 172 (1965). Under 18 U.S.C. §1001(a), Congress comprehensively criminalized all types of knowing and willful misconduct under the Office’s “duty of candor and good faith.” Liability can attach to anyone who:

“(1) falsifies, conceals, or covers up by any trick, scheme, or device a material fact;  
“(2) makes any materially false, fictitious, or fraudulent statement or representation; or  
“(3) makes or uses any false writing or document knowing the same to contain any materially false, fictitious, or fraudulent statement or entry . . . .”

<sup>65</sup> Lee Petherbridge and Jason Rantanen, “The Pseudo-Elimination of Best Mode: Worst Possible Choice?” 59 UCLA Law Review Discourse 170 (2012). See <http://www.uclalawreview.org/pdfs/discourse/59-10.pdf> at p. 176.

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impact on patent litigation – due to its highly subjective character. A second National Academies’ recommendation noted the status of the requirement as an obstacle to greater international harmonization patent systems around the world.

Leaving the “best mode” requirement in the law means that every patent practitioner has an ethical obligation to inform each inventor-client that the inventor’s patent filing must disclose the best mode “contemplated for carrying out the invention.” When the inventor then asks the patent practitioner, “What is the consequence if I keep my ‘best mode’ secret?”, the competent patent practitioner must respond that there are no adverse consequences whatsoever – in any forum, at any time, for any reason.

Thus, for the good of the U.S. patent system, it is time for a simple, surgical excision of the last vestiges of the “best mode” requirement. Again, in terms of the words needed in an AIA corrections bill, accomplishing this end could be done in fewer than a score of words.

***4. Complete the National Academies’ Recommendation for Fully Transparency in the Patenting Process by Repealing the Election to Maintain Pending Patent Applications in Secrecy.***

When Congress ended over two centuries of secrecy in the patent examination process in the American Inventors Protection Act of 1999, it included a provision that permitted a small number of patent applicants to avoid having their pending patent applications opened to the public. It did so only for inventors who eschewed any interest in patenting their inventions outside the United States.

This little noted and (relatively) little used exception to an otherwise open and transparent patent examination system is unique to the United States. In patent systems across the globe, all patent filings are subject to publication, almost universally at the 18-month mark after the original patent filing took place. France opens the French patent filings of all French inventors to the public, as do Germany, China, Korea, and Japan for the national patent filings of their respective nationals.

Prior to the AIA coming into effect, there was a reason for the United States to have a different view for its nationals, who were seeking only U.S. patent rights. In a first-to-invent country, an inventor needs to be wary of any activity that might make its invention publicly known. Under a first-to-invent system, public knowledge of another’s invention does not bar a rival or competitor from using that public knowledge to craft its own patent filings – sometimes on closely related subject matter and sometimes on the identical subject matter to what the inventor has disclosed.

Thus, under the pre-AIA patent law, once an inventor’s patent filing were published, it could invite a competitor to make subsequent patent filings that might surround the inventor’s published application – or even seek to take away from the inventor a patent on the subject matter being claimed in the inventor’s published application. All that a rival needed was the ability to marshal proofs that it had done its own inventing work earlier enough so that the work of the earlier-filing inventor was not “prior art.”

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An inventor's published patent filing that might spur a competitor into action and could ensnare the inventor in a patent interference would be an especially problematic consequence for inventors of limited resources. This deplorable state of the U.S. patent law provided a rational basis for Congress to place the 1999 limitation on transparency into the then-new publication provisions of the patent code – and to hold off on removing that limitation even after the 2004 recommendation of the National Academies that it should be abolished.

With the AIA coming into effect, however, the 1999 limitation has lost its rationale for being. More to the point, rather than being put at risk through publication of their pending patent applications, inventors now gain protections not available unless and until their patent filings become public. In other words, the rationale for the 1999 limitation has been turned upside down by the AIA – and, light of the full implementation of the AIA's provisions, it is time for Congress to take up the National Academies' recommendation for full transparency in the patenting process.

Under the provisions of the AIA, once an inventor's patent filing becomes public, including under the 18-month publication provisions of the American Inventors Protection Act, the publication serves as an immediate and categorical bar to anyone else securing a patent on any subject matter that is contained in the published patent filing, at least insofar as the patent filing represents the publishing inventor's own work. It also produces a similar bar to anyone else secure a patent on any closely related subject matter – any subject matter that is merely an obvious variation from the inventor's own work. Finally, the bar to patenting by others applies not from the publication date of the inventor's application, but from the inventor's original patent filing date.

Thus, under the first-inventor-to-file rules of the AIA, U.S. inventors whose patent filings publish now gain the same benefits and advantage that the French, German, Chinese, Korean and Japanese inventors have long enjoyed when their patent filings become public and operate as a retroactive bar to patenting by their competitors.

In addition, because the AIA provides that the bar to patenting by competitors takes effect not on the date the patent filing becomes public – but, instead, has effect back to when the subject matter in the published patent application was effectively filed – it affords the inventor the optimal assurance of freedom to operate. For competitors and other rivals who sought patents only after the inventor filed, it is the publication of the inventor's patent filing that triggers the ability of the USPTO to deny patents to those later-filing rivals on the same or obvious subject matter.

Finally, when the 1999 opt-out provision is removed, it assures every inventor that all the prior art that will eventually be relevant to its right to secure a valid patent will be available to patent examiners in a timely manner. Without a universal publication rule, the possibility remains that a relevant patent filing of an opting-out inventor will remain secret for an extended period of time – until a patent is ultimately issued to the opting-out inventor– and belatedly bring into question the validity of patents examined in ignorance of what eventually will become relevant prior art.

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Given the profound change in the U.S. law since the decision Congress took in 1999 to allow certain inventors to opt-out of the 18-month publication provisions, it is now timely for Congress to take up the National Academies' recommendation for a fully transparent patenting process. Again, as a matter of implementing legislation, Congress need do little more than excise the specific provision in § 122 of the patent code authorizing the exception to have universal, mandatory publication take effect.

**5. Complete the National Academies' Recommendation for a Codified "Experimental Use" Exemption from Patent Infringement**

The patent statute provides – in a quite categorical manner – that *any* use of a patented invention is an act of patent infringement absent an *express* statutory exception: "Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent".<sup>66</sup>

The statute itself, thus, does not literally admit of judge-made exceptions to patent infringement. For this reason alone, the legitimacy of substantial, judge-made exceptions could be disputed. This includes any judge-made exception to infringement for research or experimentation on a patented invention.

As for the courts, there is today no consistent or coherent doctrine that exempts research or experimentation on a patented invention from allegations of patent infringement. In the last few months, the issue of the existence and the scope of such a judge-made "research use" exception has come to the fore in an *en banc* decision of the Federal Circuit.

At least one Federal Circuit judge lamented the lack of clarity on the metes and bounds of such a non-statutory exception to infringement. In a concurring/dissenting, Judge Newman bemoaned that the uncertainties with respect to the permitted scope of the judge-made "experimental" exception to patent infringement has potential implications on the issue of subject matter eligible for patenting under 35 U.S.C. § 101:

This section 101 [patent eligibility] issue appears to have its foundation in a misunderstanding of patent policy, for the debate about patent eligibility under section 101 swirls about concern for *the public's right to study the scientific and technologic knowledge contained in patents*. The premise of the debate is incorrect, for patented information is not barred from further study and experimentation in order to understand and build upon the knowledge disclosed in the patent.

*Judicial clarification is urgently needed to restore the understanding that patented knowledge is not barred from investigation and research.* The debate involving section 101

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<sup>66</sup> 35 U.S.C. § 271(a).

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would fade away, on clarification of the right to study and experiment with the knowledge disclosed in patents.

...

The Federal Circuit has reaffirmed that “patenting does not deprive the public of the right to experiment with and improve upon the patented subject matter.” *In re Rosuvastatin Patent Litig.*, 703 F.3d 511, 527 (Fed. Cir. 2012). However, in *Embrex, Inc. v. Service Engineering Corp.*, 216 F.3d 1343, 1349 (Fed. Cir. 2000), the court stated that the experimental use defense was “very narrow” and unavailable when “the inquiry has definite, cognizable, and not insubstantial commercial purpose,” the concurrence adding that “neither the statute nor any past Supreme Court precedent gives any reason to excuse infringement because it was committed with a particular purpose or intent, such as for scientific experimentation,” *id.* at 1353. ... (Emphasis supplied) <sup>67</sup>

The only explicit provision in the patent statute on providing an exception for “experimental use” is to be found in 35 U.S.C. § 271(e), which was enacted into law as part of the Drug Price Competition and Patent Term Restoration Act of 1984<sup>68</sup> (the “Hatch-Waxman Act”). However, the 1984 provision was a technologically narrow one and was solely for uses reasonably related to the development and submission of information to the FDA. Indeed, coupled with § 271(a)’s categorical nature, § 271(e)(1)’s limited exceptions for experimentation could be read to suggest that Congress intended such a narrow one, but no others.

An obscenely narrow experimental use exception would, of course, make no sense. The reason that *patented* inventions are *patent* (open) is so they can be understood and improved upon – so that competitors, would-be competitors and others can analyze and understand the new developments and, in the process of seeking to improve upon them, develop new alternatives to what was patented.

Constitutionally, patents arise from the power of Congress to enact laws to promote progress in the useful arts. Progress only comes from the relentless obsolescence of new technology through the creation of technology that is even newer. Such progress depends, therefore, upon the right to investigate and experiment on what is new in order to discover the newer. The patent owner’s exclusive rights should not, therefore, include the right to protect against technological obsolescence from further progress in the useful arts.

Given the fundamental nature of experimental use exception to the patent system, the judicial lamentations over the inadequacy of judge-made law – even three decades after the creation of the Federal Circuit to oversee that law – with respect to such an exemption, as well as a statutory

<sup>67</sup> *CLS Bank Int’l v. Alice Corp.*, No. 2011-1301 (May 10, 2013, J. Newman, concurring in part, dissenting in part, slip op. at pp. 3,6).

<sup>68</sup> Pub. Law 98-417, 98 Stat. 1585 (1984).

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scheme that hardly admits that such non-statutory exception could exist, Congress ought to now prioritize action on a statutory “experimental use” exception to patent infringement.

Profound encouragement to do so from the National Academies has come not once, but twice. In addition to the 2004 recommendations, a 2006 National Academies study,<sup>69</sup> focused on reaping the benefits of genomic research, offered the following – carefully detailed – approach to a statutory experimental research exemption:

The committee believes that there should be a statutory exemption from infringement for experimentation on a patented invention.

## Recommendation 10:

Congress should consider exempting research “on” inventions from patent infringement liability. The exemption should state that making or using a patented invention should not be considered infringement if done to discern or to discover:

- a. the validity of the patent and scope of afforded protection;
- b. the features, properties, or inherent characteristics or advantages of the invention;
- c. novel methods of making or using the patented invention; or
- d. novel alternatives, improvements, or substitutes.

Further making or using the invention in activities incidental to preparation for commercialization of noninfringing alternatives also should be considered noninfringing. Nevertheless, a statutory research exemption should be limited to these circumstances and not be unbounded. In particular, it should not extend to unauthorized use of research tools for their intended purpose, in other words, to research “with” patented invention.<sup>70</sup>

The subject of a possible statutory experimental use exception was considered during the legislative efforts that commenced in 2005 and ultimately led to the enactment of the AIA. No consensus emerged during that process on a suitable proposal for a statutory codification.

However, the absence of a consensus in 2005 is an outcome unlikely to be repeated in 2013.

First, a clear, statutory exemption spelling out in categorical terms that patents cannot prevent further research on a patented invention is far preferable for most patent holders than a rule denying eligibility for patenting of any invention that represents an important object for scientific investigation. Some courts, the Supreme Court included, have suggested such an either/or

<sup>69</sup> Stephen A. Merrill and Anne-Marie Mazza, Eds., “Reaping the Benefits of Genomic and Proteomic Research: Intellectual Property Rights, Innovation, and Public Health,” Committee on Intellectual Property Rights in Genomic and Protein Research and Innovation, National Research Council, National Academies of Science (2006). Available for download at [http://www.nap.edu/catalog.php?record\\_id=11487](http://www.nap.edu/catalog.php?record_id=11487).

<sup>70</sup> *Id.*, p. 145.

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dichotomy: patents should not be granted where the inability to experiment on the patented subject matter might thwart the ability to proceed with follow-on scientific research.

The specter of enlarging the law of patent ineligibility for want of a clear exception for research or experimentation on a patented invention is a consideration that moved to the forefront of patent debates only after the work on the AIA was ending. It was not taken into account when this issue disappeared from the patent reform efforts that led to the AIA.

The changed tenor of the debate over this issue during the past two years by itself represents a compelling motive for the patent owners, especially in the biopharma industry, many of whom were most concerned about the implications of a statutory experimental use exemption, to jump on the bandwagon of “patent eligibility, yes; barring experimentation on such patent-eligible inventions, no.”

Second, as noted above, the courts have not successfully grappled with this issue, leaving much uncertainty over the extent to which research and experimentation on a patented invention is protected. This is precisely the type of needless uncertainty that spawns expensive litigation issues fraught with an unpredictability in their result. Again, this augurs well for convincing the wider patent community that now is the time for addressing, with clear and precise statutory rules, what is and is not permissible experimentation.

Third, well-vetted proposals that approach the issue of an experimental use exception in a fair and balanced manner are now in hand. With the 2006 refinements to the 2004 National Academies recommendations, a template exists for crafting a statutory provision that should aid in the cause of greater predictable and certainty in the scope of the patent right, not frustrate that end. The emergence of proposals that are a suitable basis for a consensus make it highly desirable to reopen the question of a statutory experimental use exceptions applicable to all technology sectors.<sup>71</sup>

Thus, Congress should move forward with this important topic given its newly found ripeness and importance to the U.S. patent system.

***6. Complete the Codification of the Non-Obviousness Requirement for Patentability; Codify a “Double Patenting” Provision for First-Inventor-to-File Patents That Applies When the Statutory Requirement for Non-Obviousness Cannot Be Applied.***

<sup>71</sup> Of note is the recent submission of the American Intellectual Property Law Association to the USPTO on this subject, “In addition to addressing concerns that patents potentially may hinder the development of future genetic tests, AIPLA could support a statutory experimental use exemption. Such a use exemption for bona fide scientific research should be technology-neutral, and limited to non-commercial acts done to study or experiment on the subject matter of a patented invention, e.g., to investigate its properties or to improve it. In addition, the research exemption should be available only if study or experimentation (as opposed to a commercial use) is the dominant use, and the existence of a commercial purpose should not pre-empt or preclude exemption.” Letter of February 8, 2013 to the Honorable Teresa Stanek Rea from Jeffrey I.D. Lewis, “Written Comments in Relation to Leahy-Smith America Invents Act Section 27 Genetic Testing Study and Public Roundtable, 77 Fed. Reg. 71170 (November 29, 2012).” See <http://www.aipla.org/advocacy/executive/Documents/AIPLA%20Comments%20to%20USPTO%20on%20Genetic%20Diagnostic%20Testing%202-8-13.pdf>, at pp. 3-4.



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Since the 1952 Patent Act first codified the patentability requirement for non-obviousness for a claimed invention, there has been a congressional expectation that the judge-made law of “double patenting” would continue to apply alongside the statutory non-obviousness requirement. In cases where the statutory non-obviousness requirement did not apply to prevent multiple patents from issuing with highly similar claims, the judge-made double patenting law would take hold to limit the ability to separately enforce the patents with the similar claims. For this reason, this judge-made doctrine was historically known as “obviousness-type double patenting.”

Prior to 1984, double patenting of this type was limited to the situation where the same inventor sought multiple patents that contained highly similar claims. One of the inventor-friendly features of U.S. patent law provides that the inventor’s own work – at least until it has been public for more than a year – cannot be used against the inventor to destroy the novelty or non-obviousness of the inventor’s claimed invention.

Thus, prior to 1984, double patenting arose when a claimed invention of one of the inventor’s patents was very similar to the claimed invention in another of the inventor’s patents, but neither patent represented prior art to the other – so that the non-obviousness requirement could not be applied as between the claims of the two patents to eliminate the ability to secure one of the patents unless its claims were limited to subject matter non-obviousness in light of the “prior art” patent.

After 1984, Congress provided the patents of an inventor’s co-workers, *i.e.*, commonly assigned patents, the same prior art exclusion that had earlier applied only to the inventor’s own patent filings. Then, in 2004, Congress extended this prior art exclusion a second time – excluding the prior art patents of an inventor’s collaborators, *i.e.*, individuals cooperating with the inventor under a joint research agreement. The first of these congressional actions came in the Patent Law Amendments Act of 1984 and the second came in the Cooperative Research and Technology Enhancement (CREATE) Act of 2004.<sup>72</sup> In both the PLAA of 1984 and the CREATE Act, explicit legislative history urged the USPTO and the courts to expand the law of obviousness-type double patenting to pick up the statutory slack Congress had created by eliminating the co-worker (commonly assigned) and collaborator (joint research agreement) patents as prior art on which the non-obviousness test was to be applied.

In a few words, over the past decade, this judge-made law has become unhinged from its policy underpinnings. While conceived as a replacement for a lacuna in the non-obviousness requirement under the statute, the judge-made law has been used to invalidate patents for obviousness-type double patenting in situations where there is no obviousness, that is, where the claims of one of the “double patents” are actually statutory prior art to the claims of the other of the “double patents” and the claims of the non-prior art patent are non-obvious under § 103 of the patent code over the claims of the prior art patent.

Applying a judge-made rule of “double patenting” to different patents with claims that are non-obviousness in this manner makes no conceivable policy sense – there is no “loophole” in the

<sup>72</sup> Pub. L. No. 108-453, sec. 2, § 103(c)(2), 118 Stat. 3596.

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requirements for patenting, specifically there is no abrogation of the requirement for non-obviousness that needs closing through a judge-made law.

In addition, obviousness-type double patenting with no obviousness poses the specter of a TRIPS violation. As noted above in connection with a personal forfeiture doctrine, under TRIPS, member countries are obliged under Article 27.1 to make patent rights available without willy-nilly imposing additional tests or requirements for patentability beyond the TRIPS-sanctioned ones.

As for the potential TRIPS concerns, while it is clear that the United States can impose a non-obviousness requirement for patentability under TRIPS, it is equally clear that where a patent meets the non-obviousness requirement – because an earlier patent of the same inventor is prior art and the second patent is non-obvious over the earlier patent’s disclosure and claims – that there is nothing under TRIPS that would allow the United States to nonetheless invalidate the patent on the ground that the claims of the second patent are too similar to those of the earlier patent – especially in the situation where such a patent could have been validly issued to a competitor of the patent owner and would be fully enforceable. In effect, obviousness-type double patenting without any possibility of obviousness imposes another TRIPS-inconsistent forfeiture of rights doctrine.

As a first step to ending the bizarre application of the judge-made law of “obviousness-type double patenting in the absence of any possibility obviousness,” the May 23 Discussion Draft contained a provision that would fully and accurately codify a law of double patenting for all first-inventor-to-file patents. This codification would address every pair of first-inventor-to-file patents where the claims of one of the patents is not available as prior art with respect to the claims of the other patent – but otherwise provide no sanction for the application of double-patenting principles.

The proposed codification is unfortunately limited to first-inventor-to-file patents under the AIA. It, thus, does not address first-to-invent patents, for which a complete and accurate codification of the principle of double patenting is more complicated. While limiting the impact of the codification to patents subject by the AIA addresses the concerns over double patenting law only partially, it is an appropriate and worthwhile step to take. It is a step that potentially opens the door for the USPTO and the courts to act to restrain double patenting law in all other circumstances, as envisioned in the 1984 and 2004 legislative history for the PLAA of 1984 and CREATE Act.

**7. *Complete the Implementation of the National Academies’ Recommendation for Greater Harmony in U.S. Patenting Practices with the “Best Practices” Globally.***

One goal for the AIA was to advance the posture of U.S. patent law and practice as the mold and model for the rest of the world to follow. One aspect of this goal was to incorporate into U.S. patent law the best practices found in foreign patent systems. Another, of course, was to keep, perhaps improve, the unique features of U.S. patent law that themselves had proven to be optimal practices and, if possible, refine them for the 21<sup>st</sup> century.

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Among the features of U.S. patent law to be maintained and refined were the one-year “grace period” enjoyed by inventors under the pre-AIA patent law and the related collaboration-friendly features of U.S. patent law under which certain commonly owned patents and certain patents developed through joint research agreements could not be cited against one another as a means of destroying the novelty or non-obviousness of related patents. Not only did the AIA maintain such unique aspects of U.S. patent law, it actually extended their effectiveness.

In other aspects of this “best practices” endeavor, the accomplishments of the AIA were incomplete. There are at least two such areas where Congress should now consider additional modifications of U.S. patent law, each of which would represent a “better practice” compared to today’s post-AIA patent law and each of which would foster greater international harmonization of U.S. patent law with the best features of foreign patent laws.

**A. Remove the archaic requirement for a separate “inventor’s oath”**

Now that the USPTO’s implementation of the AIA provisions on assignee filing and the inventor’s oath is complete,<sup>73</sup> it has become clear that there is no continuing rationale for requiring – in any circumstance – that the inventor execute a separate oath or declaration in connection with a patent application. As the USPTO has implemented the AIA, an inventor must formally attest that—

“(1) the application was made or was authorized to be made by the affiant or declarant; and  
“(2) such individual believes himself or herself to be the original inventor or an original joint inventor of a claimed invention in the application.”<sup>74</sup>

This requirement essentially duplicates the requirement under § 115 of the patent code that the patent applicant, who today is typically not the inventor, must meet in order to have a complete patent filing. Under § 115(a) of the patent code, the patent applicant – who may be the assignee of the patent application rather than the inventor – is required to identify the inventor of the patent application. In its implementing regulations, the USPTO afforded patent applicants the option of providing all necessary information concerning the inventor in the “application data sheet” submitted at the beginning of the patent examination process and simultaneously sanctioned the filing of the inventor’s oath or declaration at the very end of the patent examination process.

Thus, under the AIA, the statements of these duplicative statements of the inventor come at the end of the process – leaving the statements of the patent applicant made at the beginning of the patenting process the documentation needed for the patent examiner to make a complete examination of the patent application.

<sup>73</sup> See [http://www.uspto.gov/aia\\_implementation/inv\\_inventor\\_oath.pdf](http://www.uspto.gov/aia_implementation/inv_inventor_oath.pdf).

<sup>74</sup> 35 U.S.C. § 115(b), setting out the required statement of the inventor.

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Indeed, in its AIA technical amendments package, Congress took the additional step of clarifying that the inventor's "oath or declaration" need not be submitted until that patent actually issues – specifically, at the time the patent applicant pays the fee for issuing the patent.<sup>75</sup>

In summary, for patent examination purposes, the "oath/declaration" requirement has become all but a dead letter. To reinforce this "dead letter" status, the AIA further contains a "savings clause" providing that any error or defect in the submission of the inventor's oath or declaration can be corrected by the filing of a substitute document and, if a substitute is filed, the patent cannot be rendered invalid or otherwise unenforceable based on the error or defect in the original statement.<sup>76</sup>

Thus, in a nutshell, what the inventor's oath or declaration represents, under contemporary patent practice, is *paperwork* – a purposeless and meaningless formality given the obligations now placed on all patent applicants, whether the patent applicant is the inventor or the inventor's assignee, to provide all necessary inventor-related information needed to assure the patent examination is complete and accurate.

The Office should be given the authority to conform U.S. patent practice to global norms by permitting the Office to eliminate this requirement in situations where it clearly serves no purpose. Such a simple change to the § 115, the provision of the patent code providing for the inventor's oath/declaration, would allow the requirement to be maintained at least in part, if, for example, the Office identified some reason for doing so in inventor-filed (rather than assignee-filed) patent applications.

**B. Permit the USPTO to force a single patent filing to be divided into multiple patent applications only absent a single inventive concept.**

It is unlikely that the U.S. patent system is greatly suffering today because too few patent applications are being filed, too few patent applications are under examination or too few patents are being issued.

One small step towards reducing the number of unnecessary additional patent filings in the USPTO would be to permit a patent applicant to secure a single patent on the invention disclosed in any single patent filing so long as the claims presented in the application were all directed to a single inventive concept. This practice is followed extensively outside the United States under what is termed the "unity of invention" standard.<sup>77</sup>

<sup>75</sup> Pub. Law 112-274, 126 STAT. 2456 (Jan. 13, 2013), Leahy-Smith America Invents Technical Corrections, at 126 STAT. 2457.

<sup>76</sup> See 35 U.S.C. § 115(h)(1) and (3).

<sup>77</sup> The term "single inventive concept" is defined, as one example, in Rule 30(1) of the European Patent Convention: "Where a group of inventions is claimed in one and the same European patent application, the requirement of unity of invention referred to in Article 82 shall be fulfilled only when there is a technical relationship among those inventions involving one or more of the same or corresponding special technical features. The expression 'special technical features' shall mean those features which define a contribution which each of the claimed inventions considered as a whole makes over the prior art."

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Instead of explicitly dictating a “unity of invention” standard, the 1952 Patent Act set out an “independent and distinct invention” test under which the Office can force inventors to restrict their claims in any single patent filing. Under this test, a patent filing made in the United States might require a dozen or more separate divisional patent to provide complete protection for a claimed invention – while the identical filing made outside the United States would result in all the claims of the dozen-plus U.S. patents issuing together in a single patent.

The ability of the Office to restrict patent filings in this manner often results in delays in getting all the claims to the invention as originally disclosed patented. Because of this, the public may wait for years – even a decade or longer – before the last such “divisional” patent filing is ultimately issued and the patent claims on the original patent filing have all issued.

The potential benefits of a “unity of invention” practice have been long recognized within the domestic private sector:

**Improved Efficiency through Application of a Single Standard**

U.S. examiners already must use the PCT Unity of Invention standard on National Phase applications filed in the USPTO from PCT-originated applications, instead of following U.S. restriction practice. Thus, U.S. examiners should already be familiar with Unity of Invention practice. As the worldwide use of PCT continues to grow, the number of cases entering the U.S. as PCT National Phase applications also rises. Shifting continuously from Restriction Practice on certain cases to the Unity of Invention Standard on others is an unnecessary complication for examiners. Moreover, this shifting can lead to a blurring of the distinction - 2 - between the two standards and application of the incorrect standard. Patent quality and examination efficiency could thus both be improved through uniform application of the Unity of Invention standard to all applications.

**Reduced Application Filings**

In its effort to reduce backlog, the USPTO routinely revisits the need to reduce the number of extraneous applications. The Unity of Invention standard could greatly assist the USPTO in this goal in more than one respect. First, while the USPTO often focuses especially on reducing “rework” applications such as RCEs, divisional applications may also be considered “rework” applications, for the most part, as basically the same text must be reevaluated with each divisional filing. Moving to a Unity of Invention standard would alleviate this problem by focusing the examiner’s attention a single time to address each aspect of the “same inventive concept.” By rolling together related applications falling within a single inventive concept, the total number of examiner hours spent per inventive concept would be reduced. Second, under current restriction practice, rejections based upon

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“improper Markush Groups” lead to splintering the invention into many separate applications. This is burdensome to the applicant as well as the USPTO. Adoption of a Unity of Invention standard would solve this problem, simplifying prosecution for applicants seeking claims with Markush groups and/or nucleic acid or amino acid sequences.

**Benefits for Applicants and Third Parties**

Keeping claims relating to a single inventive concept in a single application is efficient for both the applicant and third parties. Usually, claims relating to the same inventive concept all address the same commercial embodiment. As such, keeping all those claims in a single U.S. patent would be more efficient and easier to manage for the applicant. And for third parties, it is easier to address the method and device claims relating to a single product in a single patent.

**Enhanced Work Sharing**

The USPTO and other patent offices around the world already understand the need for work sharing to avoid duplication of work and reduce backlogs. The USPTO already has a number of existing programs, and more proposed, to improve work sharing. But within the Patent Prosecution Highway (“PPH”) program, studies show that most of the rejections issued by U.S. examiners after receiving allowed claims from foreign patent offices relate to the U.S. application of the Restriction Practice. These rejections and the attendant burdens on the examiners and delays to applicants unnecessarily impede effective use of the PPH. Because of the widespread international use of the Unity of Invention Standard, its adoption for all applications in the U.S. would allow the USPTO to maximize the potential value of work sharing. The new PCT PPH will only enhance these opportunities, given that the Unity of Invention standard will be applied to these cases during the PCT search and examination.

**A Bold Step toward Harmonization**

For the USPTO to adopt a common Unity of Invention standard similar to that utilized by virtually all of the other patent offices worldwide would be a bold step in jumpstarting harmonization. It would facilitate cooperative searches among patent offices, exchange of examiners, more uniformity in patent family claims, and, of course, increased work sharing benefits.<sup>78</sup>

<sup>78</sup> Letter to the Hon. David J. Kappos from the Intellectual Property Owners Association, “IPO Comments on the Proposed Changes to Restriction Practice in Patent Applications,” Aug. 13, 2010. See [http://www.ipo.org/wp-content/uploads/2013/03/IPO\\_Comments\\_on\\_Restriction\\_Practice\\_FR\\_Notice.pdf](http://www.ipo.org/wp-content/uploads/2013/03/IPO_Comments_on_Restriction_Practice_FR_Notice.pdf).

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The ability of foreign patent systems to simplify the patenting process for inventors (and the public) by examining all claims to the single inventive concept at one time suggests that practices used outside the United States could readily succeed in the United States. However, to assure that the Office is able to address the redistribution of the examination burden through the “unity of invention” approach, the optimal means for implementing this change in the examination process would be through a pilot program, following which the Office would have the information and experience needed to best craft final implementing rules.

**8. Correct the Claim Construction in the New Post-Grant Review and Inter Partes Review Procedures to Reflect the Judicial Standard Used to Assess Validity**

Congress has given the Office the authority to adjudicate the validity of issued patents through the new PGR and IPR procedures of the AIA. The Office is not the only administrative body to which Congress has entrusted the responsibility for adjudicating patent validity. The United States International Trade Commission in its § 337 jurisdiction is also called upon to adjudicate patent validity issues that come before it.

In both the district courts and the ITC, the scope of the claims is determined by reviewing the respective contentions of the parties as to the meaning of claim terms in dispute and ruling on those contentions. Claims are not given their broadest reasonable interpretation because the claim construction used to assess validity of the patent is similarly used to assess whether the patent has been infringed.

Were the patent owner given the benefit of a “broadest reasonable construction” in patent infringement litigation, it would be potentially unfair to an accused infringer. A patent claim that would not have been infringed given its proper construction could be found to have been infringed if more broadly construed.

In a post-grant review or inter partes review proceeding, the same logic applies, but in reverse. Where the patent challenger given the benefit of having the patent owner’s claim being given a “broadest reasonable construction” in the PGR/IPR proceeding, it would be potentially unfair to the patent owner. A patent claim that would have been valid if given a proper construction could be found invalid if more broadly construed.

According a claim in a pending patent application its “broadest reasonable construction” can be a useful examination tool because that patent applicant effectively enjoys an unlimited ability to amend the claim – or disavow a broad construction – thereafter constraining the scope of protection on any patent that might issue on the application.

However, the intent of Congress in enacting PGR/IPR was not to continue the examination of a patent. Indeed, Congress expressly repealed “inter partes reexamination” – a procedure Congress created in 1999 to continue the examination of patents before patent examiners in a proceeding that, like pre-grant examination, accorded the patent applicant the ability to freely amend the patent claims.

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Both post-grant review and inter partes review require the use of administrative patent judges to conduct these proceedings. They bar the use of patent examiners and severely limit the ability of the patent owner to amend the claims of the issue patent.

In spite of the clear intent that these proceedings are adjudicatory in nature, not continued examination proceedings, the Office's implementation of the PGR/IPR proceedings inexplicably requires a "broadest reasonable interpretation" of patent claims be used. This is unfair to patent owners. It is inconsistent with the validity construction given in the district courts and the ITC when considering patent validity issues.

Congress should act forthwith to correct this mistake made by the Office in the implementation of its PGR/IPR responsibilities. The May 23 Discussion Draft accomplishes this result and, hopefully will find its way into a new patent reform bill.

***9. Correct the Legislative Error That Resulted in an Errant "Or Reasonably Could Have Been Raised" Judicial Estoppel for Post-Grant Review Proceedings***

The May 23 Discussion Draft contains a provision that corrects the inclusion of the "or reasonably could have been raised" judicial estoppel for post-grant review. Correcting this legislative error in the enactment of the AIA should be accomplished because it imperils the vitality of post-grant review.

***Conclusions***

The vision for the AIA was that U.S. patent law would become substantially more transparent, objective, predictable and simple. The new law was intended to boil the law of patent validity down to four legal standards – a claimed invention that is sufficiently different, sufficiently disclosed, sufficiently definite and sufficiently concrete can be validly patented. The new law was not designed to harmonize U.S. patent law with patent laws around the world as much as it was designed to glean global "best practices" for patenting – with the objective of becoming the mold and model for the rest of the world to emulate. The AIA also took the first step in what could be a patent validity adjudication revolution with the enactment of post-grant review – allowing for a full and fair challenge and a full and fair defense for patent challenger and patent owner respectively – in a procedure crafted to run efficiently and promptly to conclusion under a one-year statutory deadline.

Having done all this, the future of the AIA hopefully includes a small number of targeted changes to the AIA that would clarify provisions that have become the subject of contention, would correct provisions where legislative errors were made or Office's implementation has gone awry and would complete enactment of the 2004 recommendations of the National Academies for a 21<sup>st</sup> century patent system. Congress has already started work to address several of these important issues. The future, one might hope, would be enactment into law of perfecting changes that comprehensively address all these remaining AIA-related reforms, allowing this historic law to achieve its full promise.



Mr. GOODLATTE. Thank you, Mr. Armitage.

And the Committee—I guess your advice would be to proceed with all due concentrated deliberation and get it right.

Mr. ARMITAGE. I'll give you a few weeks to get it done right, sir.

Mr. GOODLATTE. There you go.

The Chair will begin the questioning process under the 5-minute rule. And I'll recognize myself.

Mr. Gupta and Mr. Kramer, could you walk us through how you see the abusive patent litigation environment changing, if this bill is enacted? Specifically, how the provisions on fee shifting, heightened pleading standards, discovery and transparency would reduce litigation, extortion and abusive practices?

Mr. GUPTA. Certainly. Thank you for the opportunity, Chairman.

Mr. GOODLATTE. And you're also going to have to be expeditious about that—

Mr. GUPTA. Sure.

Mr. GOODLATTE [continuing]. Because I have a few other questions I want to—

Mr. GUPTA. I can answer that with one example of a recent case for us.

We were sued by a patent assertion entity on a patent that the claims were very vague, in terms of the pleadings, there was so specificity as to how we were alleged to infringe. And the product that was identified was a product that we'd long discontinued. When we notified the plaintiff about that we got no response from them for months. About a month before discovery was supposed to close, they served us with a request and they identified 14 additional products from our company asking that we produce information and documents related to those 14 products.

With about a month left in discovery, we approached the court and said that that was not proper or fair. The court allowed the plaintiff to proceed. We were then asked to produce a significant number of documents to this particular plaintiff. In the meantime, we were seeking some discovery from them which they vigorously defended and fought. Ultimately, when we got those documents, it turned out that they had licensed a software manufacturer, whose software was imbedded in our products, and we were all licensed. At that point they walked away from the suit, after having settled in the meantime with tons of companies and having collected settlement fees from them.

Now, at the end of the day, we sought to recover our costs and fees from having had to have defended against this frivolous and abusive practice. And our fees were denied. So, the provisions in this bill address many of these procedural abuses and would make our lives and the lives of defendants who are faced with these abusive practices a whole lot easier.

Mr. GOODLATTE. So, you would say that that company hid the defects in their litigation while they attempted to drive up your litigation costs and procure a settlement. And, when that tactic failed, because you finally did discover what you needed to discover, you were not awarded any compensation for the added—one would argue—willful contribution to pursuing an abusive and, I would say, frivolous lawsuit, if indeed the products had been properly li-

censed in the first place. If people had been able to find that out in the first place, you wouldn't have had the problem.

Mr. GUPTA. I agree, yes.

Mr. GOODLATTE. Mr. Kramer?

Mr. KRAMER. Thank you, Mr. Chairman.

The Innovation Act is a bundle of common sense reforms that will help level the playing field, create transparency and allow defendants to defend themselves in cases. The provision on clarification of Section 285 will provide disincentives for patent trolls to abuse the court system and bring bad cases. The staging—the standards, with respect to genuine notice pleading in patent cases, will encourage the focus of the litigation from the start so we all know what we're talking about. That will decrease costs for everybody. Staging of discovery until after claim construction will also make litigation more efficient for everyone, both plaintiffs and defendants. Focusing discovery and making presumptive limits on what should be produced will also help everybody by making the process more efficient.

So, all these things are tremendous steps forward and create a more level playing field for everyone in the litigation.

Mr. GOODLATTE. Thank you.

Mr. Kappos, when it comes to the patent system, especially patent ownership, do you believe that it is appropriate for entities to assert a patent far beyond the value of its contribution to the art? Should there be greater requirements to asserting patents in litigation, such as fee shifting, heightened pleading standards and transparency? And, can you describe a clearly abusive patent litigation case that you faced in the private sector?

Mr. KAPPOS. Yeah, well the—thanks for the question, Mr. Chairman.

I do like, in general, the provisions that shift fees that stay some discovery that focus discovery. I think that's all good for the system, whether you are a plaintiff or defendant, frankly.

I think where further consideration is going to be needed is in balancing some of those provisions, for instance cases where a plaintiff may engage or where a prevailing party may engage in action that's found to be vexatious. So there's fairness on both sides that need to be achieved there.

In terms of overbroad claiming, which I think is a great question and central to the issue, I've seen that in any number of situations, you know, both in the government and in my private practice experience. And it is indeed—tends to be claims that cover all solutions to a problem, which frequently are business method claims, which brings up the value of the covered business provision as it is currently being worked through the USPTO. And it is those claims that enable, at times, patentees to assert far beyond any contribution they made to the field. And it is those claims, I believe, that this litigation should be directed to, in terms of its discovery, fee shifting and other provisions.

Mr. GOODLATTE. Thank you very much.

Chair recognizes the gentleman from Michigan, Mr. Conyers for his questions.

Mr. CONYERS. Thank you very much, Chairman Goodlatte.

I'd like to just follow up with Mr. Kappos on this notion that—what we can do to ensure full funding of the USPTO. And I note, in your testimony, that the GAO found their recent report that patent assertion entities are not driving patent litigation. And I want to find out if you believe the broad new legislation to constrain patent assertion entities is needed in that—in this general range of considerations. What's your view, sir?

Mr. KAPPOS. Well, thank you, Ranking Member Conyers.

And indeed the GAO report, which was obviously very non-partisan, found that non-practicing entity behavior is not primarily what's driving litigation. Moreover there have been scholarly papers that have come out, some within the last few years and even more recently, that are getting the facts and are showing that when the effects of the AIA are factored out, the total number of lawsuits really is not changing.

That being said, I would agree with the assertions of my colleagues here that there clearly is a problem. I don't see the problem as one about identifying bad guys like patent assertion entities or trolls. I see the problem as one of behaviors. Behaviors that anybody can engage in, whether you're a large well-funded company or a small litigant whatever sector you're in. And so, I applaud the parts of the legislation and the sentiment, that I heard earlier, to direct our attention toward those actions and behaviors that need to be restrained and redirected rather than trying to label parties.

Mr. CONYERS. Thank you very much.

Mr. GOODLATTE. The Chair recognizes the gentleman from North Carolina, Mr. Coble, Chairman of the Subcommittee.

Mr. COBLE. Thank you, Mr. Chairman.

Gentlemen, thank you for your testimony. Some of this may become repetitious, but it's nonetheless important.

Mr. Gupta, let me ask you this: we've all heard about patent trolls, but what about patent privateering, that is the situation where a company outsources its patent lawsuits to a shell company to harass competitors? Should such behavior be subject to FTC or DOJ antitrust scrutiny for anticompetitive behavior?

Mr. GUPTA. Thank you for the question.

I think there is an opportunity for the DOJ and the FTC to investigate and look at those practices. And I understand that they are in the process of doing so. This bill has several provisions that are directed toward the abusive litigation practices that we see today from these PAEs. And, while the FTC and the DOJ are looking at those privateering practices, if these provisions are enacted, we should see a significant decrease in abusive practices.

And I particularly think that the opportunity to hold PAEs financially accountable for having brought frivolous and abusive litigation would go a long way in changing the basic paradigm, which is that companies, if given an opportunity—or defendants, if given an opportunity to defend these actions and not feel extorted to settle in light of the significant expenses associated with getting to judgment, would choose to actually take cases to trial more often than not. And that simply would then break the model of abusive PAEs who thrive on early settlements.

Mr. COBLE. Thank you, sir.

Mr. Kramer, how do the Innovation Act's provisions work together to level the playing field in patent litigation? And with that new level playing field, do you expect that we'd see demand letters and suits against small businesses and startups to increase or decrease? And, if you would Mr. Kramer, define "demand letter."

Mr. KRAMER. Thank you, Congressman, for your question.

I'm sorry, I did not catch the last part of that question.

Mr. COBLE. I said, with the proposed new level playing field that we would expect—would the demand letters and suits against small businesses and small startups increase or decrease?

Mr. KRAMER. Thank you, Congressman.

So, I think that the provisions in this bill are commonsense reforms that will decrease those types of demand letters because, once you clarify the standards for fee shifting under Section 285, then all of a sudden there is a disincentive to send out blanket demand letters just willy-nilly and haphazardly because, like the Martha Stewart case that was discussed earlier, that could provoke a declaratory judgment action. And all of a sudden, fees could be in play.

So, I think that the behavior that we're talking about here, abusive patent troll litigation behavior, would actually be disincentivized. And that's for all players in the system, both large and small. So, the first part of your question, with respect to how it would level the playing field, I think the legislation would provide incentives for defendants to actually defend themselves in cases instead of settling more cases and just feeding the behavior.

The vicious cycle of troll litigation is such that, the more cases there are the more you settle, the more you pay the trolls go out and buy more patents to assert against you. And all of a sudden you get more litigation. If you stage discovery, if you have presumptive limits on discovery, if you create a disincentive for bringing bad cases in the form of clarifying Section 285 then you will level the playing field. And, as a result, you will see fewer bad cases.

Mr. COBLE. And Mr. Kramer, if you would, define a demand letter. What is a demand letter and what would a demand letter consist of?

Mr. KRAMER. Demand letters typically consist of an assertion that your business practices somehow infringe a patent and they request that you stop doing what you're doing, whatever activity they accuse you infringed with.

Mr. COBLE. I thank you, Mr. Chairman.

I see my red light is about to illuminate, so I will yield back.

Mr. GOODLATTE. The Chair thanks the gentleman and recognizes the gentleman from North Carolina, Mr. Watt, the Ranking Member of the Subcommittee for 5 minutes.

Mr. WATT. Thank you, Mr. Chairman.

And, let me start by trying to find common ground here. There are some provisions in this bill, I think, that a number of us agree with. There are other provisions where we have some real concerns.

Mr. Kappos, there are some provisions that you said you are comfortable with. Can you kind of identify what those are so that we can kind of start from common ground? That would be—and

maybe you want to just take some time to do that and give that to me following the hearing.

The other concern I have is with a case pending on the payment of fees before the Supreme Court now. Mr. Gupta and Mr. Kramer, what would you think the justification would be for this Committee acting on that subject before the case is heard and decided by the Supreme Court?

Let's—let me go on the reverse order. That's probably an easier more direct answer to the later question.

Mr. Gupta and Mr. Kramer?

Mr. GUPTA. Thank you, Congressman.

I think that, as the Supreme Court explains or does a better job of qualifying what an exceptional case is, that there is an opportunity here and a much needed change in the law that, in the event, that we have a plaintiff that brings an abusive action and defendants are forced to spend millions to defend themselves, that there'd be an opportunity to hold those plaintiffs financially accountable so that there is a shifting of that burden that was entirely—

Mr. WATT. And would you think it would be appropriate to apply that same standard to a defender to counter claim or would you put him in a different category?

Mr. GUPTA. I would completely support a bilateral proposal along those lines where it would be—if it's good for the plaintiff it's—

Mr. WATT. And is it your sense that the Supreme Court or the courts don't have that discretion now?

Mr. GUPTA. Right now the default is that there is no shifting of fees. One has to make a showing of exceptional case. This bill, we think, very effectively and will, efficiently address this problem of abusive litigation by making the default be that, in the event a defendant is able to show that a plaintiff's claims were objectively baseless the default would be that there would be a shifting of fees so that there is some financial accountability felt by the non-practicing entity or the PAE who currently—

Mr. WATT. This is not restricted to non-practicing entities, is it?

Mr. GUPTA. It could be.

Mr. WATT. I mean, is this—this is everybody in the litigation chain gets a—this provision gets applied to, does it not?

Mr. GUPTA. It does. And I think, from our experience, when practicing entities are in litigation, they tend to be a lot more cautious and judicious and thoughtful about claims they bring in litigation because they know that when they assert a claim that they're likely to get a counter claim. As we've seen, with our experience with having this patent assertion entities, they are not fearful for any of those checks and balances.

Mr. WATT. Mr. Kramer?

Mr. KRAMER. Thank you, Congressman.

In short, Congress is in the best position to remedy the situation and address the problem with respect to everyone involved, right, not just Octane Fitness, which is the case pending before the Supreme Court. And, like Mr. Gupta has alluded to, the current bill, Innovation Act, goes a little bit farther than what the Supreme Court could possibly do in that case and therefore would provide broader remedy—

Mr. WATT. You think 535 Members of the House and the Senate are in a better position to address question than some thoughtful response from the court. That's what you're saying?

Mr. KRAMER. Congressman, thank you for that—yeah. I——

Mr. WATT. Okay, I'm just a—I got you——

Mr. KRAMER. The answer is yes.

Mr. WATT. Okay. Alright. You got a lot more confidence in us that I think the public has in us. [Laughter.]

Mr. Kappos, I gave you a little opportunity. Can you tick off just the provisions that you think are noncontroversial in this bill, I guess, that's kind of the bottom line of the——

Mr. KAPPOS. Well, yes. Thank you, Ranking Member Watt.

I would start by saying, for instance, the fee shifting provision, which others have lauded here, while not without its issues—including that the Supreme Court is looking at two cases right now that involve that—is good policy. But, apropos, your question should be bonding in both directions that inappropriate behavior on the part of either prevailing party should be kept in mind in applying fee shifting.

I think real party in interest is in the category of being fairly noncontroversial, although I've heard calls that maybe real party in interest identification should go be a little more aggressive than it is and that more should be required than is currently in the bill.

Litigation procedure—we've talked about that. I think that is positive. Stage discovery will cut a lot of unnecessary litigation expense.

But, once again, there needs to be some reciprocity or bilateralism brought into that. So, in the case of a counter claim party, so an original defendant that makes a counter claim of invalidity or non-infringement or declaratory judgment plaintiff, should have the same requirements as the original patentee, relative to stage discovery and paying for the other party's discovery beyond a basic limit. But, I think the idea is a good one. Again, also subject to letting the Federal courts do their job and Congress not being overly prescriptive with permitting judges to use judgment.

The joinder provision, we've talked about, that clearly positive also in holding to account those parties, like Mr. Kramer pointed out, who are behind the scenes, who are not disclosing their identities. So, there's goodness there. But, again, some confusion and some lack of clarity in my reading of that provision and can stand more discussion so that it doesn't wind up being interpreted in a way that a licensee of a patent portfolio becomes subject to joinder. Which is, as I read that provision, a risk right now.

And then lastly, I would mention, stays. We haven't talked very much about that. But, that's, I think, a positive provision also. It can protect the innocents, the retailers and the end users who are brought in sometimes as hostages in patent infringement suits. And I think the provision is good from that respect, but the danger in it—several dangers. One that's prominent is that, the way it's written, it can apply to any party in the distribution channel.

So, from the top of the food chain, if you will, the party that makes the subcomponent then sells it to an aggregator that puts that subcomponent with other subcomponents, creates a card or a board, if I can refer to computers for a moment, then sells that ac-

cumulation to another party that assembles the product. I don't think you want all of those intermediary parts of the value chain to be able to benefit from stays. You want that end user or that retailer to benefit. And so, I think some tuning, some refinement of the statute will solve those problems.

Mr. WATT. Thank you, Mr. Chairman. I thank you for your indulgence of allowing the response to go over time.

Mr. GOODLATTE. Not at all. It was a learned response.

The Chair will now recognize the gentleman from Texas, Mr. Smith, for 5 minutes.

Mr. SMITH. Okay. I thank you, Mr. Chairman.

And also, I want to thank you again, Mr. Chairman, for making this subject a priority of the Judiciary Committee. I think it will be one of the most important bills that we consider this year.

I also want to welcome back Director Kappos to the witness table, I believe, for the first time since he left PTO and entered the private sector. And it's always nice to hear your expert testimony as well.

The Innovation Act codifies the first post grant review decision on covered business method patents. And I have two questions I would like to direct to Mr. Armitage, Mr. Kappos and Mr. Kramer.

And the first one is this: what should the Committee consider or contemplate as it thinks about the amendments to the program for covered business method patents? And my second question is this: are there any negative consequences to expanding the covered business method program?

And Mr. Armitage, could we start with you?

Mr. ARMITAGE. In the course of enacting the America Invents Act, probably the most contentious part of that work was figuring out what role the PTO should play with patents that have already issued. I think there was wide support for post grant review procedures. Post grant review takes place immediately after the patent issues. It allows every issue that you could raise in a District Court to be raised in the Patent and Trademark Office and indeed protects the public, if it's used and used effectively, against patents that might be sued 5 years, 10 years down the road.

It becomes much more difficult to justify these procedures once the patent is in the marketplace for several years, investments have been made in reliance on the patent because you simply can't protect the rights of the patent owner in these procedures to the same degree the rights of the patent owner would be protected in District Court.

With CBM this was the last exception to the rule that the PTO should get out of the way, after the post grant review period was over, and not consider these issues of patentability.

So, I would urge the Committee to respect that compromise. And, if there's a provision in the bill that I would hope might come out, it would be everything related to Chapter 18. I didn't hear any witness testify today that Chapter 18 was needed to get the much needed litigation reforms done.

Mr. SMITH. Okay, thank you, Mr. Armitage.

Mr. Kappos—Director Kappos?

Mr. KAPPOS. Yes, thank you, Chairman Smith.

So, relative to covered business method issues, I'm first and foremost concerned that covered business method be expanded in a way that it encompasses all software patents. I think that that sends a—just a really terrible message about the importance of software innovation and puts into scope a huge number of patents that don't belong in Section 18. As Mr. Armitage alluded, there's plenty of other provisions of the AIA procedures that those patents are appropriately subject to.

I would also say that the extension of the CBM provision to become permanent or to be extended for a number of additional years—it's just too early to say whether that makes sense. There was a great compromise and wonderful work done by Congress, this Committee, that set that procedure up as a bridge provision with a set number of years. I just don't see any reason to go and return to that, at this point.

And then lastly, I'd say, while it's too early to measure, with only 15 months with—sorry, only about 13 months under our belt so far in a procedure that's designed to take at least 15 months to produce decisions, if you look at what we know so far, there's been over 70 of these things that have been instituted, CBM procedures. That's significantly more than we anticipated at the USPTO. So, that could be viewed as a good thing. Participants are investing in the process and that's good.

There's been exactly one decision so far, in the Versata case. In that case, the USPTO took out an entire patent, despite that it had been found to be valid previously by a District Court, getting rid of a multi-hundred-million dollar judgment. So, if you extrapolate that single event out and just guess that there might be two-thirds of patents that go through the CBM procedure in the next year, have their claims either significantly or completely invalidated, you could be looking at a far different world than the one that we were living in a year ago with huge relief for the companies sitting to my right here at this table, with many, many business-method patents having been taken out. And it's in that context that I say, it feels like we should let the USPTO and its reviewing courts work a little further, because they're actually making progress with this provision.

Mr. SMITH. Thank you, Mr. Kappos.

Mr. Kramer, my time is expired, but do you have anything you'd like to add briefly?

Mr. KRAMER. Yes, Congressman, thank you for the opportunity.

The one concern that I would say that the Committee should keep in mind is providing low-cost alternatives to District Court litigation for bad patents—bad quality patents. The PTO has enacted very good rules that backstop the covered business method program including identifying that patents that have a technical solution to a technical problem should be excluded from that program. So, the program, by its own implementation—by its own rules, is very narrow.

Mr. SMITH. Okay, thank you, Mr. Kramer.

Thank you, Mr. Chairman.

Mr. GOODLATTE. Chair recognizes the gentleman from Tennessee, Mr. Cohen, for 5 minutes.

Mr. COHEN. Thank you, Mr. Chair.



Mr. Gupta—Gupta—is it “Gupta?”

Mr. GUPTA. Gupta, sir. Gupta is fine.

Mr. COHEN. Okay. You were discussing this case where, after discovery, you found out that there was a license. Did you file a Rule 11 there?

Mr. GUPTA. If I recall correctly, we sought to recover our costs and fees after the plaintiff approached us and wanted to drop the suit. And we were unable to because we could not make a showing that it was an exceptional case. And that’s where, I think, the standards are really high right now. And the plaintiff was able to walk away knowing full well—

Mr. COHEN. I’m missing something. Tell me about this license. The—you discovered that it was—

Mr. GUPTA. So, we sell—in this particular case, the products that were accused of infringement were generally hardware products that needed some operating system software. And, in this particular case, the operating software came from two or three different sources. Each one of those companies had previously obtained the license to the patent from the patent assertion entity. And the license covered downstream users of that operating system software.

So, understanding that that operating system software needed to work with pieces of hardware, the operating system provider had obtained a license that was broad enough.

When that patent was asserted against us, we did not know and we had been trying to figure out what sort of licenses were already in place with—you know, with that patent. That information was not provided to us readily. Now, it is our belief that the patent-holder knew all along—the patent assertion entity knew all along that these folks had indeed been licensed. And they had kept that information away from us as long as they could.

Mr. COHEN. I may not understand this, but it seems like if they—if there was a license that it was—that that’s when the—was a slam dunk.

Mr. GUPTA. Yes.

Mr. COHEN. Well then, how could you not have succeeded? Now, was this the judgment of the court under Rule 11? I don’t—it just doesn’t seem like the facts as you describe them could even—could a judge find other than to award fees.

Mr. GUPTA. That is part of, I believe, the reason why this bill is actually—targets or has directed remedies for some of the challenges that we face today.

In this particular case, we had to go through months of discovery to ultimately get that document or get those set of facts. And even after we were able to establish that there was indeed a license, the patentee is—or, the plaintiff is simply about to walk away and without any financial accountability for having put the defendants through this very expensive process.

Mr. COHEN. And Rule 11 wouldn’t have covered that?

Mr. GUPTA. We did not, you know, it’s not that—

Mr. COHEN. You did assert Rule 11?

Mr. GUPTA. There—we—there are Rule 11 sanctions that are available, but we sought to recover fees under Section 285 for frivo-

lous—you know, for having initiated this action. And our case was deemed not to have satisfied the exceptional case standards.

Mr. COHEN. This is somewhat, as I understand it, patterned this remedy or change under the Equal Access to Justice Act. Are you familiar with that?

Mr. GUPTA. Somewhat familiar with it.

Mr. COHEN. Are there not some countervailing standards whereby if there—one side has protracted the litigation and caused additional expenses that the ward can be reduced by the judge.

Mr. GUPTA. In patent cases it's very rare that a prevailing defendant is able to recover their fees and costs. And generally, you know—

Mr. COHEN. Right. And this would change that.

Mr. GUPTA. This would put some financial accountability back on the abusive plaintiffs.

Mr. COHEN. And shouldn't—just like the Equal Access to Justice, shouldn't it be balance though that if there's certain harm or fault on the defendant maybe then the expense of litigation that that should be something the judge takes into consideration?

Mr. GUPTA. And I think this bill talks about, you know, if the non-prevailing party has—takes positions in litigation that are objectively baseless then there is an opportunity for the prevailing party's fees and costs to—

Mr. COHEN. So you think that should occur, if whether does or doesn't—

Mr. GUPTA. Yeah.

Mr. COHEN. Mr. Kappos, let me ask you this—Mr. Watt asked you, “What are the things that you find are okay in this bill?” And in response to Mr. Smith you said a few things that maybe weren't. What are the things that you think are most egregious in this bill?

Mr. KAPPOS. I wouldn't identify anything as “egregious.” I think the—

Mr. COHEN. All right. The things that are your least favorites.

Mr. KAPPOS. Yeah.

Mr. COHEN. The things we should—the things we—shouldn't be in this bill, how about that?

Mr. KAPPOS. Well, the one thing that comes to mind, I think it's a very productive discussion, but on balance, as I've mentioned, I would tend to leave the covered business method situation the way it is given how much in flux and how early in implementation that is.

Mr. COHEN. Is that the only Section that causes you any concern? Otherwise you're for this bill?

Mr. KAPPOS. Well, with all the points that I've raised, you know, relative to the judiciary and letting the judiciary play its role, et cetera. I can't think of a provision that, as I sit here though, that I would say is completely unacceptable or bad policy, per se.

Mr. COHEN. It's hard for me to even to comprehend that there should be a bill because Mr. Smith was such a great Chairman and passed such a good bill that I supported, that I wouldn't think we need to be here this year. But apparently there was something he—even he missed.

I yield back. We have a new Chairman. [Laughter.]

Mr. BACHUS [presiding]. Yeah well, he's not new, but he's—

Mr. COHEN. He's not new. He's 20 years——

Mr. BACHUS. That's right.

Mr. COHEN [continuing]. Great service——

Mr. BACHUS. Thank you.

Mr. COHEN [continuing]. To the country. I yield back the balance of my time.

Mr. BACHUS. Thank you.

First of all, I'd like to also say, Mr. Conyers you're a man of—a very wonderful person as an individual.

Mr. CONYERS. Thank you.

Mr. BACHUS. And I have really enjoyed by 21 years association with you and your connection with Alabama.

Mr. CONYERS. Yes.

Mr. BACHUS. And we appreciate that.

Mr. CONYERS. Yes. Rosa Parks.

Mr. BACHUS. With Rosa Parks—came to work for Mr. Conyers when she moved to Detroit.

Mr. CONYERS. Yeah.

Mr. BACHUS. Thank you.

Mr. CONYERS. Until she retired.

Mr. BACHUS. Now, I'm just reviewing this. The enhanced pleading standards appears to be somewhat noncontroversial. The fee shifting to discourage frivolous lawsuits seems to be a lot of support for that. The transparency—the discovery limitation, at least initially, seems to be the—we're not getting a lot of feed—pushback on that. The covered business method patent program is—seems to be controversial.

I noticed, in fact in my case, Microsoft/IBM business software alliance strongly opposed expanding the program. We got Google, National Retail Federation, Food Marketing Institute, Internet Association there for it. I would think Yahoo! would be for or against it, I'm not sure.

Mr. Kramer?

Mr. KRAMER. The covered business method program?

Mr. BACHUS. Yeah, the expansion of it——

Mr. KRAMER. Yeah.

Mr. BACHUS [continuing]. To include its first issue patent.

Mr. KRAMER. Yeah. Thank you for the question, Mr. Chairman.

Certainly we are in favor of trying to find low-cost alternatives to litigation, particularly in situations where we feel like the patent quality is very low, right. We feel like, in that situation, we should have the ability to go back to the Patent Office on any ground and address that question with the Patent Office, rather than spending millions of dollars in the litigation.

Mr. BACHUS. Right.

Mr. KRAMER. Now, I understanding that there's debate on both sides of the issue, with respect to the scope and the length of this program. And we're certainly happy to work with the Committee on that point.

Mr. BACHUS. And I know Mr. Kappos, as he's testified to sort of an alternative approach to what is in the legislation.

Mr. KAPPOS. Well I—yeah, on balance relative to covered business methods, I would—the alternative, if I can call it this, is to

return to full funding for the USPTO because it's doing a lot to bring to life those procedures.

Mr. BACHUS. Right.

Mr. KAPPOS. And, if the agency is funded it'll do more.

Mr. BACHUS. In fact, there are other requirements in this bill which would—you would have to spend additional money on developing software, so—

Mr. KAPPOS. Yeah. Exactly right.

Mr. BACHUS. Mr. Gupta, what is your position on expanding the covered business method? Yeah, on financial services, I think it's critically important that we do it in that field in some way. But, do you have any comment on covered business method program—on how we should approach that?

Mr. GUPTA. Mr. Chairman, we have—at EMC we have generally focused on the procedures and the processes that have been set forth to deal with abusive litigation practices.

Mr. BACHUS. Which are the transparency, the enhanced pleading standards—

Mr. GUPTA. You know, fee shifting—

Mr. BACHUS [continuing]. Discovery—

Mr. GUPTA [continuing]. Specificity in pleadings and the like. And that's where we think the bill can really do a lot to—

Mr. BACHUS. So, it's not a—

Mr. GUPTA [continuing]. Address those issues.

Mr. BACHUS. It's not—

Mr. GUPTA. It's not a particularly relevant topic for us—

Mr. BACHUS. All right.

Mr. GUPTA [continuing]. At this time.

Mr. BACHUS. How about the stay for customer suits? That also—we're hearing two different sides of that. Is that—would those be the covered business method patent programs—the expansion of that and the stay for customer suits? Are those the two main points of conflict?

Mr. KAPPOS. Mr. Chairman, I would just say that I—in my view, the stay for customer suits is not, at its highest level, particularly controversial. It's clearly good policy to let innocent retailers and so-called mom-and-pops and end users stay litigation. The issue is crafting the provision so they're not over broad.

Mr. BACHUS. Right. Okay.

And whether or not the—whether it's mandatory or discretionary on part of the manufacturer?

Mr. KAPPOS. Well, there clearly has to be thought given to an appropriate amount of discretion for—including for a court so that, for instance, manufacturers who can avoid judgments or are not reachable under U.S. jurisdiction can be accounted for.

Mr. BACHUS. Would—could you give us recommendations on the—any of you on the panel, just give us some written recommendations on how to fashion that stay for customer suits or look at the legislation? Would that be possible?

Mr. KRAMER. Certainly happy to work with the Committee on that. My personal view is that the language in the statute that—the bill, sorry—that requires agreement between the—both the customer and the plaintiff that's a great start.

Mr. BACHUS. All right. Yeah, and then it is—in that regard, it is somewhat discretionary.

Mr. KRAMER. Correct.

Mr. BACHUS. Okay.

Mr. KRAMER. Correct.

Mr. BACHUS. Mr. Armitage? And I'm exceeding by 1 second my time—

Mr. ARMITAGE. I just had two brief comments. While I think everything in the litigation part of this bill is actually—needs to be done. The real question is how.

There are two issues that I'd point out. One is time to commencement of discovery to the Markman process, the claim construction process. Does that work in all cases? And, if not, does—is more flexibility needed? And then, the rules and procedures judicial conference will be mandated to put in effect. Are those, in fact, rules and procedures to specific in the sense that they don't cover situations beyond practicing—beyond some of the concerns that the witnesses have given here?

Mr. BACHUS. Okay, thank you.

I do. Thank you very much. I appreciate you all's testimony.

And at this time, Mr. Johnson is—the gentleman from Georgia is recognized for 5 minutes.

Mr. JOHNSON. Thank you, Mr. Chairman.

Through executive actions, President Obama has already worked with the Patent Office to improve the quality of patents by tightening functional claiming. Patent quality is at the heart of this issue. And, if we make strides today to eliminate low-quality patents, we'll make great leaps and bounds in improving patent litigation for all parties over time. The President has already made real party in interest the new default for patent applications and has worked to educate and protect consumers and other downstream users who are targeted by the patent trolling phenomenon.

Now, there's no doubt that there is abusive behavior occurring in patent litigation and it's causing harm to large and small businesses alike. And so, I think you are all happy with the fact that the U.S. Supreme Court has accepted cert on the Octane Fitness case and will be deciding the issue of 285—Section 285.

When is it or what is the definition of what—how do construe this exceptional standard that is put forth under 285? And so, now that case will be decided by the court, which is going to be looking at the legislative history, which includes input from the APA, both sides, plaintiffs and defense. It'll be looking at various cases that have developed over the time of patent litigation. And certainly has to be well suited to be able to construe this issue of exceptional cases.

Is there anyone who disagrees with that?

Yes, sir.

Mr. ARMITAGE. If the issue is should this Committee wait until the Supreme Court renders this decision, I would urge the Committee not to do that. I think that what the Supreme Court is doing is try to define precisely where the goalpost is placed today. And what the provisions in the bill do would actually move that goalpost for good policy reasons. So, I think, to some degree, the Su-

preme Court, I hate to say, is wasting its time. But, certainly would be if Congress were to effectively move the goalpost.

Mr. JOHNSON. Anyone disagree with that?

Mr. KRAMER. Congressman, thank you for the questions.

So, again, I think that—I'm not going to pretend to guess where the Supreme Court is going to come out on the—that case. But that cases is limited to its facts for that party. And I think the clarification that is in the Innovation Act goes farther and is a better provision for everyone in the patent litigation system.

Mr. JOHNSON. So you're both saying that you think the legislature is in a better position to deal with when a case is so exceptional that it requires or that it merits an award of fees and costs.

My problem is the small investor and—or, excuse me, the small inventor without access to the cash to commercialize the product that he—this invention would fit within or that it would constitute. And, if there's an infringement on a patent that is owned by an individual without the cash or the resources to assert that patent, then it drives down innovation.

And so, I'm afraid that the legislative approach to tightening—further tightening of the ability of plaintiffs, be they patent—be they non-practicing entities or patent assertion entities, for them to be able to, on behalf of that small inventor, protect what that inventor has invented. So, I don't want us to go too far, in terms of closing the courthouse doors to those types of good-faith—

Mr. BACHUS. Thank you.

Mr. JOHNSON. Good-faith litigants. And we can't just throw a broad brush on all patent litigation and say that it—the majority of it is abusive, when in fact the GAO has found that is not the case.

Mr. BACHUS. Thank you.

Mr. JOHNSON. Thank you.

Mr. BACHUS. Of course what it does, it just establishes the standard that's used in the Equal Access to Justice Act. So there is—we have case law going back to 1980, which is well established and it has not really eliminated the legitimate lawsuits in that regard. So, I think we've got a long history of—this is not a new standard, it's just a—you're changing the standard to fit something that works very well.

At this time, Mr. Marino is recognized for 5 minutes.

Mr. MARINO. Thank you, Chairman.

First of all, I would like to enter five demand letters. I ask for unanimous consent that these documents be entered into the record?

Mr. BACHUS. Without objection.

[The information referred to follows:]

**IsaMai, LLC**

1220 N. Market Street, Suite 806  
 Wilmington DE 19801  
 855-863-1278  
 licensing@kloipatentlicensing.com  
 June 16, 2013

DEI Communities  
 10703 J St Ste 103  
 Omaha, NE 68127-1023

Re: IsaMai Patent Licensing Program – File No. 1022076

We are writing regarding certain U.S. patents listed below, which are owned by MPHJ Technology Investments, LLC. We are the exclusive licensing agent for MPHJ with respect to your company. We have identified your company as one that appears to be using the patented technology, and we are contacting you to initiate discussions regarding your need for a license. In this letter, we explain what the patents cover, how you likely have an infringing system, explain why a license is needed, and provide you the general terms for such a license. We also answer some frequently asked questions, as well as explain how you can determine whether you do have an infringing system that requires a license.

We should note that we have written you with the understanding that you are the proper person to contact on behalf of DEI Communities. If you are not the proper person to handle this matter on behalf of the company, please provide this letter to the proper person, and notify us so that we may update our records and contact them directly in the future.

To turn to the matter at hand, the MPHJ patents for which we are the licensing agent are listed below. The list includes both issued U.S. patents, as well as a patent application which is expected to issue in the future as an additional U.S. patent.

1. U.S. Pat. No. 7,986,426 (“Distributed Computer Architecture And Process For Document Management”);
2. U.S. Pat. No. 7,477,410 (“Distributed Computer Architecture And Process For Virtual Copying”);
3. U.S. Pat. No. 6,771,381 (“Distributed Computer Architecture And Process For Virtual Copying”);
4. U.S. Pat. No. 6,185,590 (“Process And Architecture For Use On Stand-Alone Machine And In Distributed Computer Architecture For Client Server And/Or Intranet And/Or Internet Operating Environments”); and



1022076  
 09/10/13

5. 13/182,857 filed July 14, 2011 ("Distributed Computer Architecture And Process For Document Management").

You can find and review each of the issued patents listed above at [www.google.com/patents](http://www.google.com/patents).

The listed patents generally relate to the same technology field, and cover what at the time was a groundbreaking distributed computer architecture and process for digital document management. An illustrative embodiment of the architecture of the patents is provided in Figure 28, which is reproduced here for your reference.

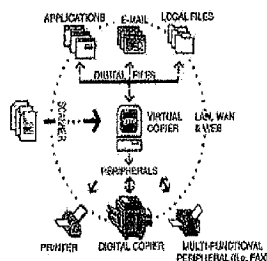


Fig. 28

To assist you in confirming that you need a license, we provide you an example of an infringing system (of at least certain claims of the patents) below in the form of a brief checklist that you can use to determine if your system is one for which you should contact us about a license. If you can answer "YES" to each question under the scenario below, then you should contact us.

Yes No

**Internetworking of Scanner/MFP and Email**

- ☐ ☐ 1. Does your company use document scanning equipment that is network addressable (*i.e.*, it has an IP address and can communicate on your network);
- ☐ ☐ 2. Does your company use Microsoft Exchange/Outlook, Lotus Domino/Notes or a comparable system for company email;
- ☐ ☐ 3. Are at least some of your employees' email addresses loaded into the scanner, so that you can select to whom you wish to send a scanned document by email; or, alternatively, can you manually input an employee's email address into the scanner to whom you wish a scanned document to be sent; and
- ☐ ☐ 4. Can you cause your scanner to transform your paper document to a .pdf file, and have it automatically transmitted to one or more of your employees by email. By automatically, we mean that pressing a "Start" or "Go" button instigates both the copying of the document and the automatic transmission of the document to its intended destination (such as a Microsoft Outlook email inbox)



As you may know, a patent's scope is defined by its claims, and you will see that each of the above listed patents has different claims. The requirements of these claims define infringement. The more general example provided above is for your convenience and should not be considered an exact substitute for the more detailed claims. In this regard, you may find it useful to consider claims 1-5 of the '426 Patent. Reviewing those you can see that the patent claims are directed to a system having a digital copier/scanner/multifunction device with an interface to office equipment (or to the web) and related software, for scanning or copying and transmitting images electronically to one or more destinations such as email, applications or other local files. Coverage of this type of system, and of the more generally worded example in the previous paragraph, is further reflected in claims 1, 8 and 15 of the '410 Patent, claims 12 and 15 of the '381 Patent, and claims 9 and 16 of the '590 Patent.

Our research, which includes review of several marketplace trends and surveys, including various IDC reports, Infotrends reports and market share analyses, as well as a survey of an IT service company about the internal network environments of its clients, has led us to the conclusion that a substantial majority of companies like yours utilize systems that are set up to practice the scenario above, or other similar scenarios covered by the claims. Indeed, such practices are now standard in many industries.

If you believe you are in the unusual position of having a system that does not practice the scenario outlined above, or otherwise avoids the requirements of the patent claims, please contact us so we may discuss simple means for confirming that. Upon appropriate confirmation, we would agree you have no need of a license and would not pursue the matter further unless circumstances changed in a way to warrant reopening a reasonable inquiry.

In the event you are utilizing the patented technology, we would like to discuss a reasonable license fee for such use. A review of independent market research illustrates the substantial cost savings for businesses that utilize automated document management systems to reduce or eliminate physical document storage in their businesses. These document management systems reduce the physical storage space needed, streamline inter-office communications, allow businesses to limit control/access to sensitive documents, and improve employee productivity by automating workflows. These savings generally have allowed us to determine that a fair price for a license negotiated in good faith and without the need for court action is a payment of \$1,000.00 per employee. This payment would cover any liability for past infringement and provide a fully paid up license for the life of the patents. We trust that your organization will agree to conform your behavior to respect our patent rights by negotiating a license rather than continuing to practice the benefits of our patented technology without a license.

As part of our licensing program, we have received certain common inquiries that frequently are asked. In anticipation that you might have some of those same questions, and with an interest in addressing those sooner than later, we wish to provide some additional information as well.

One common question we have been asked is why we are not contacting the manufacturers of the scanning equipment or application software directly. The answer is our patent rights do not claim any scanning equipment, network file systems, FTP or Sharepoint sites, or email systems *alone*. Instead, our patent rights are addressed to end user enterprise systems which use network scanners or MFPs interoperably with other software/systems in order to practice the patented solution. As such, we would not, and do not, expect any manufacturer of a particular piece of equipment or software to accept any responsibility for the infringement created by the overall system, of which their product is only a part. Further, we expect that if you review your own agreements with these manufacturers, you will find that likewise they do not owe you any duty to indemnify you for situations where you combine a piece of equipment

or software with other equipment or software to make a larger, more integrated (and useful) system.

Another common question is whether (or why) you have been singled out to receive this letter, as you may believe there are other companies like you that have not been contacted. Our response to that is to assure you that we have an ongoing vigorous licensing program that is being handled as promptly as possible, and that we fully expect to address the companies who are in need of a license. That said, your infringement of the patent rights is not justified by the infringement by others, as we are sure you understand.

We suggest that you consult with a patent attorney regarding this matter. Patents are exclusive property rights granted by law, and there can be serious consequences for infringement. Infringers who continue to infringe in the face of an objectively high risk of infringement of a valid patent can be required to pay treble (triple) the actual damages, as well as the patent owner's litigation costs, including all attorney's fees.

Please let us hear from you within two weeks of the date of this letter, so that we may agree with you upon an appropriate license arrangement if one is needed. You may answer by contacting us by mail, phone, or email at the address provided at the start of this letter. We look forward to hearing from you.

Sincerely,

A large black rectangular redaction box covering the signature area.

**FARNEY DANIELS LLP**

800 South Austin Ave., Suite 200  
Georgetown, Texas 78626-5845  
512-582-2828  
512-582-2829 (fax)  
www.farneydaniels.com

August 1, 2012

**VIA CERTIFIED MAIL, RETURN RECEIPT REQUESTED**

  
Nanonation, Inc.  
301 S. 13<sup>th</sup> Street, Suite 700  
Lincoln, NE 68508

**Re: Nanonation, Inc.'s infringement of U.S. Patent Nos. 6,215,411, 6,384,736, and 7,369,058, and recently allowed U.S. Patent Application No. 12/116,053**

Dear :

We write regarding the following patents, all entitled "Remote Control Electronic Display System" and collectively referred to herein as the "Activision Patents":

- o U.S. Patent No. 6,215,411 (the "'411 Patent")
- o U.S. Patent No. 6,384,736 (the "'736 Patent")
- o U.S. Patent No. 7,369,058 (the "'058 Patent")
- o Recently allowed U.S. Patent Application No. 12/116,053 (the "'053 Application")

We represent Activision TV, Inc. ("Activision"), the owner, by assignment, of the rights and title in and to the Activision Patents.

The Activision Patents generally relate to various aspects of digital signage. For your information and review, I specifically call to your attention the following representative claims: Claims 3 and 10 of the '411 Patent; Claims 12 and 38 of the '736 Patent; Claims 1, 15, and 22 of the '058 Patent; and Claims 27, 33, and 38 of the '053 Application.

Activision has learned that Nanonation, Inc. ("Nanonation") develops, assembles, sells, installs, and manages remotely sourced display signs and systems that infringe one or more claims of each of the Activision Patents. Nanonation's infringing products include its digital signage and kiosks.

██████████  
August 1, 2012  
Page 2

Activision has suffered damages due to Nanonation's past infringement, and will suffer damages and irreparable harm in the future in the absence of injunctive relief to stop Nanonation's infringing activities. Accordingly, please contact me as soon as possible at ██████████ to discuss an appropriate resolution of Nanonation's past and ongoing infringement. Thank you in advance for your attention to this urgent matter.

Very truly yours,

██████████

██████████

██████████

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600 SOUTH AVENUE WEST • WESTFIELD, NEW JERSEY 07090  
 T: 908.654.5000 • F: 908.654.7866 • WWW.TEKM.COM  
 CHINA: UNIT 3403A • TIAN TOWER • 208 TIANJIN ROAD • TIANJIN DISTRICT  
 GUOXIAOHE, GUANGDONG 510620 • CHINA • T: 86 20 3819-1788 • F: 86 20 3819-3789  
 INTELLECTUAL PROPERTY LAW

Stephen F. Roth  
 908.518.6362  
 SRoth@tdkllan.com

July 1, 2013



Bothell, WA 98012

Re: TREEH14,1-001  
 Treehouse Avatar Technologies, Inc.  
 Notice Regarding U.S. Patent No. 8,180,858

Dear Sir:

We are intellectual property counsel to Treehouse Avatar Technologies, Inc. ("Treehouse"). Treehouse is the owner of U.S. Patent No. 8,180,858 ("the '858 Patent") entitled "Method and Systems for Presenting Data Over a Network Based on Network User Choices and Collecting Real-time Data Related to Said Choices." We have enclosed a copy of the '858 Patent and a claim chart illustrating the general applicability of the '858 Patent.

Generally, claims 1, 9 and 15 of the '858 Patent relate to presenting data over an information network based on choices made by the users of the network and collecting data related to the choices made by the user. The systems and methods encompassed by the '858 Patent may be used and performed by operators and developers of video/pe games played using an internet connection, including MMORPGs. Typically, such games allow users to create characters (avatars) using character attributes (hair color, eye color, skin color, attire, weapons, etc.). The game operator keeps track of the popularity of each attribute by tallying how many times it is selected. The same such systems and methods may also apply to games that permit users to create custom sceneries.

We write to bring the '858 Patent to your attention because it is our understanding that you develop, operate or sell game(s) that may use, or may have an interest in using, the technology covered by one or more claims of the '858 Patent, including Starfires. In order to facilitate your understanding of the technology covered by the '858 Patent, without limiting our client's rights, we direct your attention to the enclosed claim chart



July 1, 2013  
Page 2

that shows the applicability of the '858 Patent to games such as ones your company offers.

As you may know, a United States patent grants its owner the right to exclude others from using products that fall within the scope of the claimed invention and collect damages not less than a reasonable royalty. However, we are willing to hold amicable discussions and work with you to negotiate a license on favorable terms. In the matter with your company, we are trying to avoid any unnecessary litigation by providing you with sufficient information to facilitate licensing discussions.

If you have any questions about the '858 Patent, the technology covered by the '858 Patent, and terms for resolution, please do not hesitate to contact us.

Very truly yours,

LERNER, DAVID, LITTENBERG,  
KRUMHOLZ & MENTLIK, LLP

  
STEPHEN F. ROTH

SFR/jen

Enclosures(2)

DESMARAIS LLP

www.desmaraisllp.com

230 Park Avenue  
New York, NY 10169

P: 212-351-3400  
F: 212-351-3401

June 2, 2011

By Federal Express

San Diego, CA 94107

Re: *EasyWeb Innovations, LLC Patent Licensing*

Dear [REDACTED]

We represent EasyWeb Innovations, LLC ("EasyWeb"), which owns several U.S. patents relating to message publishing technology. We understand that [REDACTED] through [REDACTED] and related products and services, is actively utilizing and benefiting from technology, features, and functionality covered by EasyWeb's patents, including U.S. Patent Numbers 7,032,030, 7,596,606, 7,685,247, 7,689,658, and 7,698,372. [REDACTED] therefore infringes these patents, directly and/or indirectly. Enclosed are courtesy copies of those patents.

We would like to arrange a meeting with representatives of [REDACTED] to discuss these patents and licensing terms. Please contact me by telephone at [REDACTED] or via email at [REDACTED]. I look forward to speaking with you.

Very truly yours,

Enclosures

**Innovative Wireless Solutions, LLC**

555 Republic Drive, Suite 200 • Plano, Texas 75074

April 10, 2013

VIA CERTIFIED MAIL

CERTIFIED MAIL  
TRACKING NUMBER

Re: Infringement of Innovative Wireless Solutions, LLC's U.S. Patent Nos. 5,912,895, 6,327,264 and 6,587,473

Dear Sir or Madam:

I am writing on behalf of Innovative Wireless Solutions, LLC ("IWS"). IWS is the assignee of all right, title, and interest in U.S. Patent Nos. 5,912,895 (the "'895 Patent"), 6,327,264 (the "'264 Patent"), 6,587,473 (the "'473 Patent") (collectively "the IWS Patents"). The IWS Patents generally relate to a wireless access point ("WAP") that connects to an Ethernet network.

IWS has learned that [REDACTED] ("your company") is infringing one or more claims of each of the IWS Patents by making, using, offering to sell, and selling the use of an IEEE 802.11 wireless network (commonly referred to as a "WiFi network") that includes a wireless access point connected to an Ethernet network (collectively "wireless Internet access" and/or "the infringing services and products").

For example, your company is infringing at least claim 40 of the '473 Patent by performing each of the steps of that claim in at least the following manner:

- a) The WAP in your WiFi network provides communication between a CSMA/CD network (an Ethernet network) and a bidirectional communications path (an 802.11 wireless network).
- b) The WAP includes an Ethernet interface that contains an Ethernet modem that receives information packets from an Ethernet network.
- c) The WAP transmits the information packets over the 802.11 wireless path in a direction towards a mobile station.
- d) The WAP includes a controller that implements the medium access control ("MAC") protocol as defined in IEEE 802.11. In accordance with the MAC protocol, the controller provides information that controls when wireless devices connected to the network are allowed to transmit, thereby causing the communications over the wireless network to occur in a half-duplex manner.
- e) The WAP receives information corresponding to information packets from the 802.11 wireless path at the Ethernet modem and transmits those information packets over the Ethernet network.

Similarly, your company is infringing at least claim 5 of the '264 Patent by operating a WAP that includes all claimed elements in at least the following manner:



Manager  
 April 10, 2013  
 Page 2

- a) The WAP in your WiFi network allows wireless devices to connect to a network.
- b) The WAP includes an Ethernet interface for coupling to an Ethernet network. Ethernet is a CSMA/CD technology.
- c) The WAP includes an 802.11 interface for coupling to the 802.11 wireless network which provides a wireless bidirectional communications path.
- d) The WAP includes a controller that implements the medium access control ("MAC") protocol as defined in IEEE 802.11. In accordance with the MAC protocol, the controller provides information that controls when wireless devices connected to the network are allowed to transmit, thereby causing the communications over the wireless network to occur in a half-duplex manner.
- e) The WAP includes a first buffer that holds frames received from the Ethernet network via the Ethernet interface and then supplies those frames via the 802.11 interface to the wireless network.
- f) The WAP includes a second buffer that holds frames received from the wireless network via the 802.11 interface and then supplies those frames via the Ethernet interface to the Ethernet network.

Furthermore, your company is infringing at least claim 48 of the '895 Patent by making a wireless network that includes all claimed elements in at least the following manner:

- a) The WAP in your WiFi network provides communication with a CSMA/CD network (an Ethernet network) via a bidirectional communications path (an 802.11 wireless path).
- b) The WAP is located at a first end of the 802.11 wireless path and includes an Ethernet interface to an Ethernet network. Ethernet is a CSMA/CD technology. The WAP includes a buffer for buffering information packets received from the Ethernet network via the Ethernet interface for supply to the 802.11 wireless path. The WAP also includes a buffer for buffering information packets received from the 802.11 wireless path for supply to the Ethernet network via the Ethernet interface. The WAP also includes a controller that implements the medium access control ("MAC") protocol as defined in IEEE 802.11.
- c) A wireless station is connected at a second end of the 802.11 wireless path. The wireless station includes a buffer for buffering information packets received from the 802.11 wireless path, a buffer for buffering information packets to be supplied to the 802.11 wireless path, and a MAC controller.
- d) The MAC controller in the WAP and the MAC controller in the wireless station are arranged to exchange control information over the 802.11 wireless path so as to allow information packets to be communicated bi-directionally over the 802.11 wireless path between the buffers of the WAP and the wireless station in a half-duplex manner.

In addition to directly infringing the IWS Patents, your company is also inducing others to infringe the IWS Patents by offering wireless Internet access, advertising that wireless Internet access, and encouraging others to use that wireless Internet access. These other entities include your company's guests, customers, and end users, whose connection of their wireless devices to your network and use of the wireless Internet access constitutes direct infringement of the IWS Patents.

Manager  
April 10, 2013  
Page 3

Additionally, your company's provision of wireless Internet access to these guests, customers, and end users contributes to infringement of the IWS Patents by those entities because your wireless network constitutes a material part of the invention, was especially made or especially adapted for use in an infringement of the IWS Patents, and has no substantial non-infringing uses. In particular, your wireless network constitutes a material part of the claimed invention at least because it contains the components that interface your wireless network to an Ethernet network and provide control information to the wireless devices as claimed in the IWS Patents. Your wireless network was made or especially adapted for use in an infringement of the IWS Patents and has no substantial non-infringing uses at least because it contains components whose only purpose is to interface your wireless network to an Ethernet network and to provide control information to the wireless devices as claimed in the IWS Patents.

As a result of your company's infringement of the IWS Patents, IWS has suffered damages and will continue to suffer damages in the future. Accordingly, please contact IWS's attorney, [REDACTED] as soon as possible to discuss an appropriate resolution of your company's past and ongoing infringement of the IWS Patents. [REDACTED] may be reached as follows:

[REDACTED]  
Farney Daniels PC  
800 S. Austin Ave, Suite 200  
Georgetown, Texas 78626  
[REDACTED]  
[REDACTED]

Thank you in advance for your attention to this important matter.

Very truly yours,

Innovative Wireless Solutions, LLC



Paul Heath

Mr. MARINO. And I will say what they are. The first letter is from Isa Mai—I do not know if I’m pronouncing this right, so I’ll spell it: I-s-a M-a-I—dated June 16, 2013 from—doing business out of Delaware. The next one is Farney—F-a-r-n-e-y—Daniels LLP, dated August 1, 2012 out of Texas. The third demand letter is Lerner, David, Littenberg, Krumholz & Mentlik, dated July 1, 2013, and I believe they’re out of New Jersey. The next letter is Desmarais—D-e-s-m-a-r-a-i-s—LLP, it’s dated June 2, 2011 and they’re from New York. And the last is Innovation Wireless Solutions LLC from Texas, dated April 10, 2013.

These letters are typical letters, they fail to state a claim by the plaintiff. The features of the alleged abuse by defendants are absent and we don’t know who is suing.

Mr. BACHUS. Thank you and those are made a part of the record.

Mr. MARINO. Even one of the letters has a little diagram. And the diagram says, “if your main computer is dealing with a fax machine, sending information to a fax, to another computer, or to a printer, there’s a violation.” Well, apparently I have some problems in my house because my children’s computers and mine and my wife’s are all linked together. We go to the fax machine, we go to the printer, we go to the Internet, and we send each other air-mails—emails.

So, this is how ridiculous these letters are, particularly to small businesses in my district who are just scared to death when get something like this, because they do not know what’s going on. So, this legislation is clearly, clearly needed.

Mr. Kappos, could you please—I may have misunderstood, and I know a couple of my colleagues have stated that there’s not an abuse, the—was it the GAO or one of the offices said cases haven’t increased, it doesn’t appear to be an abuse of litigation. But you’re certainly saying that that is the standard because there’s no increase or because there doesn’t appear to be a great deal of abuse in the legal system, that we should not look at penalizing, somehow, the plaintiffs in these cases for sending demand letters among other things just like this. So—

Mr. KAPPOS. Well, there clearly is a problem with abusive litigation. Your examples—

Mr. MARINO. But, we’re not basing it on the number of cases—you’re not basing it on the number of cases or the increased litigation in the courts, are you?

Mr. KAPPOS. I’m basing that view on—not on the number of cases—

Mr. MARINO. Okay.

Mr. KAPPOS [continuing]. But on the exemplars of abuse, like the ones that you’re talking about.

Mr. MARINO. Sure, and thank you.

I do agree with you. I think the—we need to fund the USPTO. It’s in drastic need of funding. And I think three areas will really make a difference in this: Funding PTO, because enough people to look at the patents coming in can tell whether they’re, you know, they’re legitimate and they’re following the rules that are prescribed. Number two is making sure the courts get serious about fees and sanctions. And, as a prosecutor for 18 years, I give a great deal of—I was a U.S. attorney in the middle district, the judges

were excellent there. But, I hope that courts are really going to take a serious look at this, as far as awarding fees and applying sanctions.

And I would like to ask anyone who wants to respond to this: this is a—based on what Mr. Gupta stated, if that plaintiff knew about that license, is there anyone on the panel that says that this is not a fraud against the court by omitting that information? And why should criminal charges not be filed against somebody for doing this?

No response, so I'm guessing you agree with me on this.

Mr. KRAMER, I see you want to make a statement here?

Mr. KRAMER. Thank you, Congressman.

Certainly that is egregious behavior. Courts typically have already the ability to sanction that type of behavior. And I agree, in that situation, they should use that power.

Mr. MARINO. And I find the courts, both from when I worked in the State court and the Federal court, the courts are very reluctant to reward fees and to enforce penalties and sanctions. I'm hoping that we get the courts' attention. I really don't want to get into a position where Congress, to a great deal, is telling the court what to do in discretionary matters. But, if your plaintiff knew and that could be shown, I think it is fraud on the court and I think, not only should there be severe fees and sanctions, but I think there should be criminal charges filed as well.

Mr. Gupta?

Mr. GUPTA. And, if I might add to that. I agree with you, Congressman. And if, as Chief Judge Rader wrote in the Op-Ed piece he authored in the New York Times, he acknowledged that there is a problem where District Courts are not awarding fees, you know, and shifting costs in this regard. And I think there's also an acknowledgement that the Federal circuit feels that the judges don't act uniformly or the courts don't in doing so.

Mr. MARINO. If I were a U.S. attorney, I'd be all over this like white on snow.

Mr. ARMITAGE. One of the difficulties with most patent litigation is the subject matter is complicated, the patent law is complicated. There's a certain fog of patent litigation that engulfs the courts and it's to the advantage of someone to have vague pleadings and broad discovery requests et cetera that, even if they're meritless, it's, in the fog, it's hard to see the lack of merit sometimes on the part of the court. And that to me is why these maybe special remedies are needed for this special kind of litigation.

Mr. MARINO. And I'm going to yield back with this closing. It's not my idea by my colleagues. So, I notice that the three tech guys are reading from paper and the pharmaceutical guy is reading from the pad. [Laughter.]

Mr. BACHUS. Thank you, Mr. Marino.

And actually he did not exceed his time because he had a unanimous consent request, which doesn't count on his time.

The gentlelady from California, Ms. Chu, is recognized for 5 minutes.

Ms. CHU. Thank you, Mr. Chairman.

I'd like to ask Mr. Gupta a question about end users. I'm very concerned about the effect of frivolous suits that are filed against

the end users of products. These customers of everyday technologies are oftentimes the victims of demand letters and patent infringement lawsuits.

And I know, from example in my local area in southern California, about this because the local credit unions were the subject of a lawsuit from the patent assertion entities just because they had features on their websites that had to do with online banking features. And, you know, some of them are very, very small credit unions, but they were sued as a group. And ultimately they had to make a decision between reducing staff or proceeding with a lawsuit. Finally, they just gave up and they settled with the patent trolls.

I just think this is outrageous. And I think that we need to find some way of relieving our end users. So, that's why I'm so pleased to see that Chairman Goodlatte included a provision that would allow customer suits to be stayed, while a manufacturer intervenes on their behalf. Because a manufacturer has the ability to defend a patent infringement lawsuit given that it has prior art and knowledge of how the technology truly works.

So, Mr. Gupta, I know your company has a great deal of experience in dealing with these cases. Can you tell us more about the nature of these lawsuits and walk us how your legal team makes the decision to intervene in an end user suit? What factors do you consider? And do you ask that the end user consent to being bound by the outcome of the case?

Mr. GUPTA. Thanks for that question, Congresswoman.

We find ourselves as being the covered manufacturer at times. And we also find ourselves as being the covered customer at times. So, there are instances where we buy a chip or a component that then get—you know, is used to develop a computer system. And the infringement accusations are really directed to the chip, but we're the ones that are sued.

In those instances we look to the chip manufacturer to intervene and defend the litigation. And we believe that that's a more productive way to go about it. And there are times that, when we are suppliers of technology in times our customers get notices, in addition to the fact that we have been sued and we have to, at that point in time, intervene and attempt to resolve the case.

The—what's incentivizing this sort of behavior is that PAEs have figured out that, if you go further and further downstream, you are potentially able to target a customer or a party that is least able to defend the action and probably has a larger revenue base, relative—you know, relative to the component or the product that's accused.

I give the example often of a patentee that might have a patent on a wiper blade. Why would you sue the wiper blade manufacturer for a ten-dollar part, when you can sue an automaker for shipping a car that sells for \$30,000 with the wiper? And why stop there? Why not go after an auto rental agency and attempt to collect a certain portion of their rental fees because they rent out cars that have wipers?

Now, in those circumstances, it makes utmost sense—and this bill provides a mechanism for it, where the auto rental company or the auto manufacturer would agree to a stay with the manufac-

turer of the wiper blade and let the wiper blade manufacturer take it up with the patentee.

There might be instances where, if indeed it is the auto rental company that says, I need a custom part designed for my wipers and they customize the wiper or they take it to put a special coating on it, they trim it in a different way that's unique to their use and the patent goes to that unique aspect, then the suit may be rightfully brought against that party that made those modifications that brought it to—within the claims of the patent. But, by and large, the abusive behavior tends to be where there are discrete parts where the end users is really not in any way, shape or form modifying the part that's accused of infringement. But they're the ones that are sued.

Ms. CHU. Thank you for that.

And, I'd like to enter into the record now a letter that was sent to the Committee on Monday, in support of expanding the covered business method program. It was signed not only by high-tech groups, but other industries that are badly in need of relief, such as grocers, chain restaurants and retailers. The money was taken—that was taken from them impacts thousands of constituents. So, I ask to enter this letter into the record, Mr. Chair.

Mr. BACHUS. Without objection.

[The information referred to follows:]

October 28, 2013

The Honorable Patrick J. Leahy  
Chairman, Committee on the Judiciary  
United States Senate  
224 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Bob Goodlatte  
Chairman, Committee on the Judiciary  
U.S. House of Representatives  
2138 Rayburn House Office Building  
Washington, DC 20515

The Honorable Chuck Grassley  
Ranking Member, Committee on the Judiciary  
United States Senate  
224 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable John Conyers, Jr.  
Ranking Member, Committee on the Judiciary  
U.S. House of Representatives  
2138 Rayburn House Office Building  
Washington, DC 20515

Dear Messrs. Chairmen and Ranking Members:

The patent system plays an important role in promoting innovation in the United States. Increasingly, however, patent assertion entities (PAEs), commonly called patent trolls, are exploiting the patent system for financial gain to the detriment of innovation. PAEs do not make or sell products, nor do they develop new technologies—their business model is based purely on patent litigation and patent licensing. They impose huge costs on American businesses (at least \$29 billion in 2011 alone) that drain funds from job creation. The undersigned organizations represent tens of thousands of businesses employing tens of millions of Americans, as well as public utilities and public interest groups. We call on Congress to provide relief from patent abuse by creating an efficient, inexpensive alternative to litigation for fighting the invalid business method patents commonly asserted by PAEs.

The PAE problem is growing rapidly. Nearly 7,000 businesses were sued by PAEs in 2011-2012, a fourfold increase since 2006. In fact, the number of companies being sued with business method patents has increased 28% a year on average since 2004. Many more were threatened. These suits frequently involve low-quality patents that cover standard features of e-commerce, like online shopping carts, store locators on websites, and shipment notification emails sent to customers. Non-tech companies are frequent targets of these patents, usually for products that they purchased. 51% of the PAE suits faced by retailers, for example, are over business method patents.

Most companies have little recourse but to settle with PAEs, even when threatened with invalid business method patents. The average cost of patent litigation is \$6 million. For a small or medium business, defending a patent lawsuit typically costs \$1.75 million. Because proving a PAE's patent invalid through litigation can take years and cost millions, a targeted company faces a no-win situation: it can pay lawyers, the PAE, or both.

To avoid settling with PAEs who use invalid patents, companies need an effective alternative for challenging validity outside of the courtroom. One such alternative, created in 2011, is the Covered Business Method (CBM) review program at the U.S. Patent & Trademark Office. CBM review gives threatened companies a substantially less expensive way to challenge low quality patents. Once invalidated at the PTO, a patent is removed from the system; it cannot be used to target other businesses. Importantly, small businesses are also able to pool their resources in order to pay to have a PAE's patent reviewed.

Currently, however, CBM review is limited to "financial services" patents. This limitation means that most of the patents used by PAEs are not eligible for CBM review. Other programs for challenging patent validity at the PTO do not allow the PTO to consider whether the patent is abstract, vague, or too broad, common problems with the business method patents asserted by PAEs.

This is why we were pleased to see growing momentum in Congress for expanding CBM review. The White House also argued for an expanded CBM program in its package of legislative recommendations announced this June. Last week, the U.S. Patent & Trademark expressed its support as well. We strongly urge you to support a package of reforms that would expand CBM review in order to address the low-quality patents that are fueling the PAE litigation explosion and harming American companies.

We appreciate your support of this important initiative.



Sincerely,  
Airlines for America  
American Association of Advertising Agencies  
New York, NY  
American Gaming Association  
American Hotel and Lodging Association  
American Public Power Association  
Application Developers Alliance  
CoCo  
Minneapolis, MN  
Computer & Communications Industry Association  
Direct Marketing Association  
Electronic Frontier Foundation  
San Francisco, CA  
Engine Advocacy  
Food Marketing Institute  
Galvanize  
Denver, CO  
International Franchise Association  
The Internet Association  
Internet Infrastructure Coalition  
Mobile Marketing Association  
New York, NY  
National Association of Realtors  
National Council of Chain Restaurants  
National Grocers Association  
National Retail Federation  
Printing Industries of America  
Public Knowledge

Public Patent Foundation  
New York, NY

Startup Weekend  
Seattle, WA

The eMob  
New York, NY

Ms. CHU. Mr. Kramer, if I may ask about these covered business methods. You've fought back against these suits for many years now. Can you tell us about any past cases in which an expanded CBM program would have been helpful?

Mr. KRAMER. Thank you for that question, Congresswoman.

Unfortunately, off the top of my head, I don't have a great fact situation to share with you. But, I can say that there—we have been participants in a pending CBM, at this point in time. So, you know, we think it's a useful proceeding. It is helpful to have low-cost alternatives to litigation. And, because of that, you know, we certainly support that program.

Ms. CHU. Thank you.

I yield back.

Mr. BACHUS. Thank you.

Just to clarify, you know, the business methods already are reviewed, we're including patents. Is that your - all of your understanding? You know, in the covered business method, it includes patents. We already include the business methods, in the original bill that mister—that we passed, shouldn't it?

Mr. KAPPOS. I'm not sure I understand the question. Could you restate it?

Mr. BACHUS. We keep talking about a—there's a difference in business methods and patents. And we already have statutory language that's already covering business methods. So, what we're talking about here is patents, is that correct?

Mr. ARMITAGE. In the America Invents Act, there was a special Section—

Mr. BACHUS. For financial services.

Mr. ARMITAGE. Right. That covered—

Mr. BACHUS. Yeah.

Mr. ARMITAGE [continuing]. Business method patents. It's the Patent Office, in fact, has given that term quite a broad interpretation. As, I think, as broad as the statute would allow. And it goes on for a period of 8 years. So, if this Committee did nothing on that issue, that procedure would continue in place for years to come.

Mr. BACHUS. Sure. Okay.

Mr. Farenthold?

Mr. FARENTHOLD. Thank you very much. And I'm really glad we're having this hearing today, as patent reform is an important issues. I'm a tech guy, so I enjoy it.

But you know there's a problem when you've got—you know, I can't get Wi-Fi at my local Whataburger and the prices in my grocery store are coming up because they're getting tagged by frivolous lawsuits.

So, I kind of wanted to touch on some of the stuff that the gentlelady from California talked about because I'm specifically interested in end users as well. And, Mr. Gupta, you said that you don't settle unmeritorious suits because it would be tantamount to giving in to extortion. And I understand, as a player in the intellectual property game, that—I applaud that. But, you know, Whataburger for instance, which, you know, Texas-based burger company—better than In-N-Out Burgers. [Laughter.]

But, they make hamburgers. They don't play in the intellectual property game. And they don't have the expertise in it. They get

a demand letter—or, you know, you take it down even lower to a mom-and-pop business and you get these demand letters listing all the demands, all the claims, all the potential damage. And then hitting you three or four paragraphs on how you can't—how to avoid a spoliation claim. And you've got to—you know, you got to replace all the hard drives to all your computers to preserve evidence. I mean, does this go far enough to protect end users in what we're doing, do you think?

Mr. GUPTA. I think there are several provisions in the bill. And, what you touched on is really a collection of abusive practices that lead to that sort of messy outcome for those defendants. And I think there are several provisions in the bill that would address very specific aspects of abusive procedural uses that would ultimately curtail those sort of behavior.

But, you know, in the example of the burger manufacturer, if indeed it was something they felt they needed to take a stand on, like Martha Stewart did, if they knew that ultimately, if they did take it to trial and they prevailed, that there would be some accountability on the part of the plaintiff for having harassed these folks in the first place. That there would be some sort of remedy at the end of the day to shift the burden.

Mr. FARENTHOLD. So, Mr. Kappos, you—I mean, you talked about not wanting to reach down to the mom-and-pops. I think that was in answer to one of your questions. It seems like this stuff naturally rolls downhill. Once the patent trolls have finished shaking down the big businesses, then they move down to the—they've already moved down to the Whataburgers. I'd call them a medium-sized business. You know, when do they move down to the, you know, the person who has the one retail store or the boutique? Or when do they move into my house and say, "Oh my. You got a Wi-Fi router in your house and you got a cell phone. That'll be 50 bucks licensing fee or were going to sue you for 10,000?"

Mr. KAPPOS. Yeah, so I think there are—first of all, that is happening already. And that's why you've seen, in some States, some State action being taken. But there are a number of issues with this provision that I think, for the Whataburgers of the world in Texas, are going to make the provision probably not helpful in its current manifestation.

The top one on my list is that there's a requirement for the covered end user or retailer, in this case, to agree to be bound by the judgment. But the problem with that is that parties are never in exactly the same position. They're in different positions. They were put on notice at different times.

Mr. FARENTHOLD. So what would you propose to fix that?

Mr. KAPPOS. There needs to be work done on the statute in order to ensure that parties—

Mr. FARENTHOLD. But you could—would you say a provision to stay, then an option to be bound by it, and then, you know, a tolling of the statute of limitations during that time—would that be a workable solution? Or—I mean, I'm trying to figure out how to fix this so it solves those problems.

Mr. KAPPOS. Yeah, I'm not sure if I understand that. But, certainly, I think the issue is resolvable for—so that the statute benefits the retailers without being overextended.

Mr. FARENTHOLD. All right.

And does anybody else on the panel want to comment on ways we could improve that? And I'm specifically concerned about end user protection. Does anybody else want to anything? I don't want to leave the opportunity.

Go ahead.

Mr. KAPPOS. I would say one other thing. There's an issue also there with the commonality of interests that's needed in order to trigger the provision. The way it's worded right now, I think we're going to see a lot of reordering of commercial relationships with parties, you know, like the EMCs of the world, when their customers are in asking for—to change indemnity provisions, that's going to create one set of situations. Because customers are going to want to get indemnities to get under this new provision—

Mr. FARENTHOLD. Right.

Mr. KAPPOS [continuing]. And be able the stay litigation. And an EMC, when it's in the position of being a customer, is going to want to change indemnity language. Now, I'm not sure Congress meant to reorder commercial relationships, so that needs to be taken into account too.

Mr. FARENTHOLD. All right. I see I'm out of time. And I think Mr. Kramer wants to answer, if the Chair will indulge me and let him answer.

Mr. BACHUS. Yes, you may answer.

Mr. KRAMER. Thank you, Mr. Chairman.

Thank you for the question, Mr. Farenthold—Congressman.

You know, I steadfastly believe that those who manufacture should stand behind their technology, right? I know we do. We expect our partners to do that. And so, I think the provisions in the act regarding end user stays are a great start. And certainly happy to have my staff get in touch with your staff and work on appropriate language to make sure everybody is satisfied.

Mr. FARENTHOLD. Thank you very much.

Mr. BACHUS. Mr. Deutch, are you next or Mr. Jeffries?

Mr. Deutch?

Mr. DEUTCH. I'm next.

Mr. BACHUS. Okay.

Mr. DEUTCH. Thank you, Mr. Chairman.

Mr. Chairman, as an early advocate for legislative fixes to the troll problem, I'm glad we're having the opportunity to discuss this in detail today. And I—while I don't agree with all of the provisions of the bill, I applaud Chairman Goodlatte's attention to the issue and his willingness to dive into this with solutions to a genuine and growing problem. And I appreciate, in particular, Chairman Goodlatte's willingness to work through disagreements. I'm hopeful that we can get to a place where we can all be supportive of a final piece of legislation.

For a problem this complex there can't ever be one solution alone. Any work that we do to combat the predatory environment that has allowed patent trolls to prey on both large and small companies has to focus, I think, on stopping bad behavior and establishing incentives for responsible action rather than going after specific business models. Those business models will change if we don't address the underlying behavior.

And we also have to take a comprehensive enough approach so that we don't find ourselves back in the same situation a year down the line, with little actually solved in spite of bills that we may have passed. I think this necessitates a kitchen sink approach. Chairman's bill certainly does this, bringing together several approaches aimed at making the patent troll business less profitable. It gives us a lot to talk about today.

And I'd just like to focus the remainder of my time on a component of the Chairman's bill I strongly support, which is bringing greater transparency to the patent system.

Mr. Kappos, you spoke—you mentioned real party in interest as one of the items that would be a constructive addition to current law. You also acknowledged earlier in the hearing that the real party in interest language that some have advocated for stronger language still. I count myself as among those who do.

And, first though, I've been monitoring the PTO's current examination of what can be done to enhance real party in interest disclosure within their existing authority. I'd welcome your comments on the work that they've done thus far and particularly where that might go, as former PTO director.

Mr. KAPPOS. Well, thank you, Congressman.

And, indeed, where I was going with my comment before was that the provisions of this bill mainly effect the real party in interest disclosure and litigation. What about in all those other contexts, in front of the expert agency, where people really need to know who they're dealing with. So, I applaud your focus on the USPTO's efforts. I do not think the USPTO has enough statutory authority now. I would love to see them get more to be able to require the necessary disclosures at all the touch points in the patent system, where parties are coming in and asking the agency to do work for them.

Mr. DEUTCH. I appreciate that. I think it's not just the touch points in the patent system. As you know, the Goodlatte bill adds new requirements at the initial complaint stage. And I certainly agree it'd be helpful over the current system. And I agree with you that identifying those specific points within the system are appropriate.

But, I worry that it leaves out earlier places in this chain where it would also be critically helpful. People who receive demand letters without a key piece of information that they need in order to decide whether to settle or whether to litigate or, frankly, sometimes whether to just shut their doors. What additional transparency requirements might be helpful for the system, as a whole, as we try to approach it that way?

Mr. KAPPOS. That's a good point. So, you're talking demand letters, you're talking the portion of the system that lies between the USPTO's authority and the courts authority.

Mr. DEUTCH. Right.

Mr. KAPPOS. And a great example of why I think more discussion is needed, as we consider this bill, on this particular point.

Mr. DEUTCH. Mr. Kramer, you—you're testimony also highlighted the value to practicing companies for enhanced transparency. When I started on this Committee a few years back I assumed that patent ownership was fairly straightforward, it was easy to iden-

tify. I've learned, obviously, otherwise. The opposite is true. It can be difficult to know who the true party behind a demand letter is, when a—or even when a defendant goes into court. And even properly identifying real parties in interest for a particular patent can be complicated based on exclusive licensing agreements that are also in place, other private contracts that might exist.

So, I'd ask if you could just expand upon your experience managing the IP portfolio in dealing with plaintiffs who intentionally hide the identities of owners or key investors. And then, finally, just stepping outside of the bill for a moment, as the person responsible for a large patent portfolio, if you could address whether it would be overly burdensome for you to have to record ownership of your patents whenever you sell or acquire them.

Mr. KRAMER. Thank you, Congressman.

Let me take your second question first. I—the—patents are a government grant, right? And I think that the government, you know, as well as the public should understand who has a financial interest in them. As a holder of patents, I'm more than happy to record my transactions with the Patent Office, right, but—so, people know who owns those patents. So, that's your second question.

In terms of complicating the procedures, certainly, you know, my experience has been in the real problem is in the settlement of litigations, right, when all of a sudden the party across the table says, "Well, you know, I got to talk with my investors to see whether I can accept that," right, and that's a problem, right. I, personally, want to know who I'm dealing with, in the context of a litigation. I, you know, I don't want to keep feeding this vicious cycle of troll litigation. So, if I know that the same person is on the other side of the case from me, I might fight it harder, I might not settle because otherwise whatever money Yahoo! ends up paying them, right, they're just going to go buy another patent and sue me again, right? And I don't want that to happen. So I think it's very important that we know the parties who have an interest in the patent and an interest in the litigation.

Mr. DEUTCH. Thank you.

Thank you, Mr. Chairman.

Mr. BACHUS. Thank you.

Mr. Collins from Georgia is recognized for 5 minutes.

Mr. COLLINS. Thank you, Mr. Chairman. I appreciate the opportunity.

Also, I appreciate this process and this is something that I have, before I was even sworn in, began the process of looking into this because we knew it was going to be coming back up. There was too much conversation going on.

I appreciate Mr. Armitage, what you said about the fog around patent litigation. I come to think of it not more as a fog, but when my staff comes in and we have these sort of dream sequences, I believe. When am I going to wake up and I'm in the shower or something.

But, it's like, what is this—where are we headed here? And I think that's the concern I have, in looking at—over this. And the question, Mr. Kappos, I want to ask this to you and it's long and I'll sort of lay it out. The question I'll—that I have is on whether or not Section 18 should have been, one, originally included in AIA

and whether its expansion in this bill is necessary or even really appropriate? Now, is that—one that I have been giving a lot of thought to and honestly it causes me some trouble.

There's a question that there—there is no question that the right to patent, the right to exclude is given inventors by the Constitution. Patent rights are property rights, but they are unique in they only—in that the only way for an inventor to protect his property and to protect his patent is to assert it in court. If a subject matter is patentable, then I believe that it has the same value as another patentable subject matter. No monetary—not monetary, of course, but it should enjoy the same protection, the same ability to license, the same ability to assert as other patentable subject matter.

Many other minds have discussed at great length, during the AIA floor debates of Section 18 placed expediency of process above protection of patent rights. And I'm not seeking to rehash or relive those debates, however I am struggling with a provision that would make permanent a temporary program that does not expire for 6 years. What I have found in my short time here is Congress legislates then they collect data and suppose to conduct oversight. I am in mind of that in finding that that's what we're sort of doing again here. We're running to do something, then we're going to look at how it works or maybe look at it later.

So, is there anything that you can tell me that would basically assure my fears? Or is there some compelling argument for why we must make permanent today a provision that doesn't expire for 6 years? Wouldn't it be more prudent to let this provision act as it was intended? Operate for 8 years, conduct oversight, assess the program and its achievements, and then decide if so to, whether to extend it or make it permanent.

Mr. KAPPOS. Well, thank you, Representative Collins. I would, if anything, amplify your fears so that bubble sequence could get rather darker.

The challenge with this provision is that it has just been implemented. It is just getting on its feet. And, in fact, Congress has called for a study of the post grant procedures, including Section 18, about this time 2 years from now, September of 2015. So, I completely ascribe to and agree with the process that you've articulated. Congress already called for that process as part of the AIA. We need to let it run forward. And—

Mr. COLLINS. Yeah.

Mr. KAPPOS [continuing]. Learn more.

Mr. COLLINS. Well I appreciate that. I want everyone in this room, because there's holders in all these seats here, looking at this. This is a—this is not a good workable system, what we have now. There are problems all up and down the line. And I think there's some things that we've got to do to address this.

What really concerned me though is—Mr. Kramer, is just a comment that you made that sort of took my whole question when you were asked directly, "Can you cite an example where an expanded process would have helped you?" And you said you really couldn't name one. That concerned me.

But I have a—do have a question for you as well. That your statement just brought my—crystalized my whole question line, and you as mister well—Mr. Gupta as well. I understand that both



of you have some concerns with the provision in the bill on the standard for the PTO to apply when examining a patent in the post grant procedures. Can you explain the—you know, as briefly as possible, the nature of your concern and the reasoning for your concerns on this standard for post grant procedures?

Mr. KRAMER. Certainly.

Let me first address the example question. I understood that Chu—Congresswoman was asking me for a prior case, I couldn't think of a prior case. I can think of a current case where we've used the system and that's the Metasearch case. So there is one that—

Mr. COLLINS. Well, the question was where is one that would expansion would have helped you. And—

Mr. KRAMER. Correct.

Mr. COLLINS.—I think that's sort of where we're headed here. So, you really—and I appreciate that because—

Mr. KRAMER. Correct.

Mr. COLLINS [continuing]. It crystalized my question. So—

Mr. KRAMER. Great. In terms of an example, I'm sorry.

Mr. COLLINS. The post grant review.

Mr. KRAMER. The post grant review. That's a—I understand there are concerns on both sides of the aisle with respect to the standard of claim construction being proposed. You know, certainly, you know, that's an issue where on the one hand you've got a hundred years of PTO history using one standard and to change things, I think, might be dramatic for them. Certainly, willing—happy to work with you on finding a resolution to that problem.

Mr. COLLINS. Well, I think, in some way, wouldn't you agree that this bill itself is in—and Mr. Armitage, I think, sort of alluded to this—this bill is changing procedural provisions in a specialize way for patents. That, you know, really if this goes through as is, books will be written because you're going to have to explain how you're going to go through the process now.

Mr. KRAMER. It is a process that is currently a standard that we all have to face already.

Mr. COLLINS. Well, when new discovery requirements, stays, those kind of issues like that—I mean, that's an issue that—you know, there's many things in this bill that are—that I believe can be workable and are workable and I support. You know, I think the PTO office—actually—and that's one of the reasons I signed on to make sure that we put the right resources where the resources need to go.

Mr. KRAMER. Right.

Mr. COLLINS. And I—that was a concern.

Anything to add to post grant?

Mr. GUPTA. You know, we happened to—our patents are, from time to time, subject to post grant review process—procedures and we put patents through post grant review procedures as well. And, from our perspective, whatever—you know, wherever we end up on this in a thoughtful sort of outcome, we're wanting to live by the same set of rules when they're applied to our patents and when we apply them to others' patents.

But where we really have a lot hope and our focus has been on is sort of—you know, anytime a system goes out of whack you get

feedback. And then, with the feedback, you could take some corrective action. There's clear feedback on the litigation abuses that we see. And this bill has so much good in the area of procedural abuse, you know, sort of feedback mechanisms, you know, our focus has always been on supporting those aspects and making sure that those tweaks are indeed put in place.

Mr. COLLINS. And I know my time is running short. But I do appreciate the fact that you're willing to be—you know, everybody need to play by it. That's something that's sort of lost in this town. That some people want this treatment and other treatment and we want to treat the same here, as we move forward.

Mr. Armitage, I've watched—I've just—as my last moments here, is there anything to my questions or stuff that you'd like to add to that?

Mr. ARMITAGE. Just that we do have a hundred year's history of the PTO in examination using one standard. But for the last 220 years, the PTO has never been given the authority by Congress to adjudicate the validity of issued patents. And so, we're in a situation where the PTO is actually being the court, substituting its administrative patent judges for District Court judges. And those claim construction standards in those two proceedings simply must be the same for the sake of fairness to the patent owner.

Mr. COLLINS. Well, I think my time is over. There are some other issues on studies on transfer of venues, some other things. We'll get to those.

But I appreciate the Chairman's time. And I appreciate this coming forward in our discussions today.

Mr. BACHUS. Thank you.

And, at this time, the gentlelady from Washington, Ms. DelBene is recognized.

Ms. DELBENE. Thank you, Mr. Chair.

And thanks to all of you for being here and for all of your time.

I kind of wanted to follow up actually, Mr. Kappos, discussing Section 9's changes to the standard of claim construction in inter-party and post grant review proceedings. You pointed out that this may lead to the PTO endorsing and issuing broader claims in these proceedings. And so, I wondered if you could speak more about the impact of this provision and whether you view the current use of broadest reasonable interpretation standard as effective in achieving the goals of our proceedings or whether you think there needs to be change.

Mr. KAPPOS. Well, I think that Congress, when it put the AIA in place, did so knowing that the USPTO has for many, many years been using the so-call BRI or broadest reasonable interpretation. So, I think that there's fairness on both sides of this debate. The reason BRI has always been the standard is that in the USPTO, unlike in the courts, applicants or patentees have opportunities to amend their claims. And so the view is, "Look the agency's mandate is to protect the best interests of the public, ensure that overbroad claims are not being granted and therefore take a reasonable but broad interpretation." Applicants can amend their claims and the public's best interest is protected.

The challenge that we get into with moving the USPTO to the skill of ordinary—one of ordinary skill in the art standard, that the

courts use, is that then, quite clearly, the agency will be issuing claims that are going to be broader in some cases, less clearly defined in some cases. And, in that sense, that provision, while there are plenty of merits to it as Mr. Armitage points out, does cut against the core of this legislation, which is to try and improve the quality of the patent system and reduce vague patents that lead to these overbroad assertions that folks to my right are concerned about.

Ms. DELBENE. Thank you.

Mr. Kramer, do you have anything else to add as we were talking about post grant review? Or do you—

Mr. KRAMER. No comment.

Ms. DELBENE. Okay, thanks.

We also know that the impact on small business and venture-backed businesses, startup companies—the impact that abusive litigation is having. Today, Robin Feldman, the professor of law at the University of California, Hastings, and the National Venture Capital Association released findings from a survey that they did of venture capitalists and startup companies. And the results are very clear that the number of patent demands received by venture-backed companies has increased over the last 5 years. Roughly one in three startup companies report receiving patent demands.

When we talk about this legislation and I think, Mr. Kappos, you brought up earlier that we may still need feedback from small inventors in terms of the impact of this legislation. I wondered what your thoughts were with respect to the impact of this legislation on small inventors, small innovators? And, what changes you might look at, given what you might perceive their feedback to be, going forward?

Mr. KAPPOS. Right, well thank you for that question.

And my sense, and I don't pretend to represent the small inventor community, but my sense is that when they register their views they will have some concerns. They'll have some concerns that go along the lines of access to justice by being potentially priced out of the system. And we need to be sensitive to that.

They'll have some concerns that when they go to enforce their valid patent rights that large companies and medium-sized companies and even modest-sized companies that have far more resources though than the small entities and the independent inventors will be able to potentially engage the same kind of actions that we're talking about here that we don't want patent trolls engaging in. So that's why I commented before that while I like lots about the bill, I think that reciprocal provisions are needed to ensure that parties in the role of defendants are acting responsibly, just as we're requiring parties in the role of plaintiffs to act responsibly.

Ms. DELBENE. And, Mr. Gupta, the—you know, you also talk, in your written testimony, about the impact on small business. So, I wondered if you had anything to add with respect to how this bill might balance the needs of large businesses but also small innovators.

Mr. GUPTA. I think the—again, I can't necessarily speak for all small businesses. But, I think, if you think about VC-backed companies or small companies that are truly entrepreneurial, they have an idea—a business idea, they get a patent on it and they're

working toward bringing a product to market. I think they are more concerned about the abusive litigation tactics that are directed toward them.

The data that we have suggests that more than half of these patent suits are filed against companies that have less than 10 million and a vast majority against companies whose revenues are less than 100 million. And so, you know—and when small companies initiate patent action against someone else, they generally do not take advantage of procedural tricks to increase the cost of litigation of the—on the other side. And they are certainly not looking of an early settlement to get out of it. They are, at that point, protecting their invention, their innovation, their business. They're not looking for a settlement where they end up licensing the patents or that this alleged infringer could then be competing against them using the technology that they want to commercialize.

And in talks—and in the context of Access to Justice, I think you have to look at the fact that the defense costs, in today's patent system, is so great and so high for small businesses, I think effectively they are being excluded from this justice system because the only way they can feel they can participate is by having to give in to these extortions and settle, rather than actually get to the merits of the dispute to prove their non-infringement position or the invalidity position.

Ms. DELBENE. Thank you.

I yield back my time, Mr. Chairman.

Mr. BACHUS. Thank you.

Mr. Poe is recognized for 5 minutes.

Mr. POE. I thank the Chairman.

One of the strengths of our system is that it treats everybody the same. And, in fact, the United States has fought to establish a non-discrimination between types of inventions in international trade under the TRIPS Agreement. Do you think that other countries, like Brazil, India and China will use this as an invitation to harm one of our best industries, like software? And this is open to whoever wants to answer it.

Mr. KAPPOS. Yeah, I'll certainly take that on. I've been mentioning that all morning here.

Well, I do think there's risk of that. And I think that the provision that you're referring to, Section 18, the covered business method provision and inserting into it an overt—quite blatant discrimination against software-based innovation will invite our trading partners sit up and take notice and to potentially have that come up in trade negotiations. And I think that's one of the many reasons why extension to the software field is a not good policy.

Mr. POE. So, the answer is what? I'm sorry I didn't hear what the answer was.

Mr. KAPPOS. The answer was—is enthusiastically to agree with your concern.

Mr. POE. And so, what do we do about it? Do you have an answer on what we should do about it? Any of you?

Mr. KAPPOS. Well—

Mr. POE. I've never seen four lawyers quiet in my life, like this. [Laughter.]

Mr. KAPPOS. Yeah, relative to Section 18, I do. Which is that we certainly should not be expanding it to cover software.

Mr. POE. Right.

Mr. KAPPOS. And the better judgment, I think overall—given that it's so new, given that it is getting traction, given that the USPTO has interpreted it broadly, given that its reviewing court hasn't had time to even look at the USPTO's interpretation—is that it's best to let that procedure keep running forward and not amend it at this point.

Mr. POE. All right.

Mr. Armitage, did you want—

Mr. ARMITAGE. Yes.

Mr. POE [continuing]. To make a comment? Thank you.

Mr. ARMITAGE. I would just say that, in the course of the America Invents Act, Congress made a finding that there were particular type of patent, based on developments in the law and the work of the Patent Office in examining them that justified a transitional procedure to deal with those patents and specify the transition period. And, as Mr. Kappos says, the case hasn't been made to change any of those findings much less make what was a transitional program a permanent part of our patent law.

Mr. KRAMER. Congressman, thank you for the question.

I think that there should be low-cost alternatives to challenge, within the U.S. Patent and Trademark Office, patents that do not have a technical solution to a technical problem. That is the definition that the USPTO has adopted, therefore I think it's a good program.

Mr. POE. Okay.

Mr. Armitage, did you want to weigh in on that again?

Mr. ARMITAGE. Yeah, just one comment.

Every issued U.S. patent that meets the CBM definition tomorrow could be challenged in the Patent Office. And there'd be another 6 year when that can happen. And that could happen for every newly issued patent during the next 6 years. Under the new patent law, every first inventor to file a patent that issues is subject to the identical type of procedure on any ground of patentability. It covers all technologies. So, we already have in place a comprehensive system of post grant review. We don't need yet another procedure or to expand an existing procedure to take care of existing patents.

Mr. POE. Every time—not every time, but many times when Congress gets involved in anything it makes it worse, whatever it is. Of course, we don't want to do that. And now the proposal is, you know, H.R. 3309 would expand the covered business method program, even though it's only been in effect about a year. Is it too soon to make changes in the law that really hasn't been tested much—two cases I believe? Too soon?

Mr. KAPPOS. I would say yes, on balance it is.

Mr. ARMITAGE. Too soon.

Mr. POE. That's two.

Mr. KRAMER. And in my opinion it's not too soon.

Mr. POE. Two and one.

Mr. GUPTA. I'd have to concur.

Mr. POE. That it's too soon or not too soon?

Mr. GUPTA. I think, as we have only one decision, we'd really like to see how the system plays out.

Mr. POE. All right. Three and one. All right thank you.

Small guys. I think the reason—one reason we got patent trolls to begin with is because the small guys are looking for help. That's one reason. Does—I'm concerned about the small guy going against Yahoo! or somebody else. They don't have lawyers. They—you know, they call their family lawyer or something, if they need help. Patent law, as we know, is a very specific, difficult litigation process. It's much more complicated than probably anything. So, small guy. How do we make sure the small guy isn't excluded from the system? That's the end of the question because I'm out of time. How do we keep the small guy excluded from taking care of their patent?

Mr. KRAMER. Mr. Chairman, I see the time is expired. Can I respond to the question please?

Mr. BACHUS. Yes.

Mr. POE. Thank you, Mr. Chair.

Mr. KRAMER. Thank you. Since Yahoo! was identified in the question, I feel like I have an—a responsibility—

Mr. POE. I'm not picking on Yahoo!, I'm just giving examples.

Mr. KRAMER. There is nothing in this bill that prevents anyone from filing a meritorious lawsuit, right? Matter of fact, there are provision in this bill that will—would help the small guy. Staging discovery, giving presumptive limits on discovery—those things will definitely help the small individual inventor to pursue a meritorious claim against any company.

Mr. POE. Well, what they're concerned about it the losers pays provision.

Mr. KRAMER. I'm sorry, I didn't understand.

Mr. POE. What they'd be concerned about, of course, is if they lose and then they got to pay. Well, they can't pay.

Mr. KRAMER. So—

Mr. POE. Some of them say, "I can't pay, so I can't litigate."

Mr. KRAMER. Under the provision, as written, it's very forgiving, right. Although there is a presumption that if you have a—there is a presumption toward fee shifting. But, if you have a substantially justified case, i.e. a good case, right, you're not going to pay. Or there is also a provision that provides the District Court judge with discretion in special circumstances, if it—if fee shifting is not warranted than fee shifting will not happen. And it's a good thing to give the District Court judge that discretion.

Mr. POE. As a former judge, I like the word discretion.

I yield back. Thank you for your patience, Mr. Chairman.

Mr. BACHUS. All right. Thank you.

Gentleman from New York, Mr. Jeffries, is recognized for 5 minutes.

Mr. JEFFRIES. Thank you, Mr. Chairman.

And let me thank the witnesses for your testimony today. I found it to be both helpful and illuminating.

I represent a district largely anchored in Brooklyn that increasingly has become home to technology and innovation companies, particularly a significant number of startups and tech entre-

preneurs. That's been a very positive addition to the local economy and one that we embrace and want to foster and develop.

Unfortunately, many of these same entrepreneurs and startups have increasingly found themselves on the wrong side of the patent troll issue. And that's why, Mr. Chairman, I think this is such an important hearing and an issue that we need to address thoroughly, comprehensively, but also deliberately here in the Congress.

Let me start with Mr. Gupta. You testified, I believe, that you were sued more than 30 times since 2005 by patent assertion entities, is that correct?

Mr. GUPTA. That is correct.

Mr. JEFFRIES. And it's fair to say that, in your view, each of these actions were lacking in merit and frivolous, is that right?

Mr. GUPTA. That is correct. In fact, you know, of all these 30 cases we have settled only one piece of litigation. We've taken cases to trial, cases have also been dismissed on summary judgment in our favor.

Mr. JEFFRIES. So in the cases that you did not settle, all but one, you prevailed in one way or the other in all of those other matters, is that right?

Mr. GUPTA. Yes. Or, when the—we were able to convince the patent assertion entity that we were the last one standing and we were going to fight until the end and have our day in court, they had walked away.

Mr. JEFFRIES. Now, were you awarded attorney's fees? And did you apply pursuant to Section 285 in those cases that you ultimately prevailed in, either at the pleading stage or some point during the lawsuit or at trial?

Mr. GUPTA. In a couple of instances we were awarded our fees—I'm sorry, our costs in connection with having had to continue litigating after a certain point. But we have never been successful in recovering our attorney's fees and costs.

Mr. JEFFRIES. Okay. Now, I think you also testified that patent assertion entities bring unmeritorious suits and then leverage the high cost of litigation to negotiate, I think what you termed, "Extortionary settlements," is that correct?

Mr. GUPTA. That is correct.

Mr. JEFFRIES. I think that's a colorful but fair framing of the issue that folks confront.

I think, Mr. Kramer, you characterized the problem as, "Defendants being forced to spend millions to litigate against abusive actions," is that right?

Mr. KRAMER. That is correct. Yes, Congressman.

Mr. JEFFRIES. Now, is it also fair to say that this litigation cost tends to primarily be anchored in the expensive nature of discovery in the patent context?

Mr. KRAMER. That is a large component of the cost, yes.

Mr. JEFFRIES. And so, is it also fair to say that the ability to negotiate the extortionary settlements, that these patent trolls seek either with a demand letter or in the commencement of action, is largely anchored in the fact that the costs of discovery is so expensive in many instances?

Mr. KRAMER. I think it's anchored in the cost, in the fact that litigation as a whole is expensive and time consuming and requires a lot of effort and attention from everybody involved.

Mr. JEFFRIES. So, is it reasonable to focus, in terms of our effort to try and address the patent-troll problem, to try and limit the cost of the litigation either at the front end or as you pursue discovery in order to eliminate the primary weapon being used by, you know, illegitimate patent trolls to try and extort or extract settlements?

Mr. KRAMER. I certainly think that the provision in the Innovation Act for staging discovery is a great step forward. And I certainly think that the proposal to have the judicial conference look at creating presumptive limits on the content of discovery, that's a great step forward.

Mr. JEFFRIES. And is the heightened pleading requirement also an important step in terms of limiting actions from moving forward unless there's some judicial finding of merit?

Mr. KRAMER. I agree that the requirement for genuine notice pleading would be a tremendous step forward to drive efficiency in the system, so we all know what we're talking about when the complaint is filed.

Mr. JEFFRIES. And, Mr. Kappos, I believe there was an article written by the Chief Justice of—or the Chief Judge of the Federal Circuit Randall Rader entitled, "Make Patent Trolls Pay in Court," on June 4, 2013.

I'd ask unanimous consent that this be entered into the record.

Mr. BACHUS. Without objection.

[The information referred to follows:]



**The New York Times**

June 4, 2013

**Make Patent Trolls Pay in Court**

By RANDALL R. RADER, COLLEEN V. CHIEN and DAVID HRICIK

FROM an early age we are taught the importance of fighting fairly. But as the vast number of frivolous patent lawsuits have shown, too many people are rewarded for doing just the opposite.

The onslaught of litigation brought by “patent trolls” — who typically buy up a slew of patents, then sue anyone and everyone who might be using or selling the claimed inventions — has slowed the development of new products, increased costs for businesses and consumers, and clogged our judicial system.

Their business plan is simple: trolls (intellectual-property lawyers use less evocative terms like “non-practicing entities” and “patent-assertion entities”) make money by threatening companies with expensive lawsuits and then using that cudgel, rather than the merits of a case, to extract a financial settlement. In the apt summary of President Obama, who on Tuesday announced a plan to stave off frivolous patent litigation, trolls just want to “hijack somebody else’s idea and see if they can extort some money.”

So far, legislative action against the practice has been meager. In May, Gov. Peter Shumlin, Democrat of Vermont, signed legislation — the first of its kind — that amends the state’s consumer protection laws to empower its attorney general and others to sue patent holders who assert infringement claims against a Vermont business or resident in bad faith. But lawmakers in the remaining 49 states and in Congress, where no less than four bills now sit in various committees, have yet to legislate specifically against patent trolling.

Mr. Obama’s latest proposals echo those in several bills, including making it harder for patent litigants to set up shell companies to hide their activities.

In the meantime, vexatious patent litigation continues to grind through our already crowded courts, costing defendants and taxpayers tens of billions of dollars each year and delaying justice for those who legitimately need a fair hearing of their claims. Trolls, in fact, filed the majority of the roughly 4,700 patent suits in 2012 — and many of those were against small companies and start-ups that often can’t afford to fight back.

The problem stems largely from the fact that, in our judicial system, trolls have an important strategic advantage over their adversaries: they don’t make anything. So in a patent lawsuit, they have far fewer documents to produce, fewer witnesses and a much smaller legal bill than a company that does make and sell

something.

Because they don't manufacture products, they need not fear a counterclaim for infringing some other patent. They need not be concerned with reputation in the marketplace or with their employees being distracted from business, since litigation is their business.

Trolls, moreover, often use lawyers to represent them on a contingent-fee basis (lawyers get paid only when they win), allowing trolls to defer significant legal costs that manufacturers, who generally must pay high hourly fees, cannot.

With huge advantages in cost and risk, trolls can afford to file patent-infringement lawsuits that have just a slim chance of success. When they lose a case, after all, they are typically out little more than their own court-filing fees. Defendants, on the other hand, have much more to lose from a protracted legal fight and so they often end up settling.

Lost in the debate, however, is that judges already have the authority to curtail these practices: they can make trolls pay for abusive litigation.

Section 285 of the Patent Act, as well as Rule 11 of the Federal Rules of Civil Procedure, give judges the authority they need to shift the cost burden of litigation abuse from the defendant to the troll. But remarkably, judges don't do so very often: by our count, fees were shifted under Section 285 in only 20 out of nearly 3,000 patent cases filed in 2011.

Our judicial system's bias against shifting fees partly explains that reluctance, but Section 285 is flexible enough to help defend against trolls. And even though many cases settle, the prospect of paying fees will discourage aggressive suits and frivolous demands.

To make sure Section 285 is implemented with appropriate vigor, judges must look more closely for signs that a patent lawsuit was pursued primarily to take improper advantage of a defendant — that is, using the threat of litigation cost, rather than the merits of a claim, to bully a defendant into settling.

One sign of potential abuse is when a single patent holder sues hundreds or thousands of users of a technology (who know little about the patent) rather than those who make it — or when a patent holder sues a slew of companies with a demand for a quick settlement at a fraction of the cost of defense, or refuses to stop pursuing settlements from product users even after a court has ruled against the patentee.

Other indications of potential bullying include litigants who assert a patent claim when the rights to it have

already been granted through license, or distort a patent claim far beyond its plain meaning and precedent for the apparent purpose of raising the legal costs of the defense.

Judges know the routine all too well, and the law gives them the authority to stop it. We urge them to do so.

*Randall R. Rader is chief judge of the United States Court of Appeals for the Federal Circuit. Colleen V. Chien is an assistant professor of law at Santa Clara University. David Hricik is a professor of law at Mercer University.*

Mr. JEFFRIES. And he makes some interesting observations in this op-ed written with two other individuals. He indicates that in 2011 there were 3,000 patent cases filed but only 20 of those cases resulted in a finding of attorney's fees pursuant to 35 U.S.C. 285. He then makes the observation that he believed that this statute does provide judges with the ability to defend against the trolls but it's not being exercised with sufficient robustness. That's my characterization of what he said in this article.

I think that the challenge for us is to figure out how do you balance, you know, the need to maintain some integrity and judicial discretion with a coequal branch of government, with the ability for there to be some cost in pursuing frivolous actions. And I would just ask you to comment on that.

Mr. KAPPOS. Right. Thanks for the question.

So, yeah. The Federal Circuit jurisprudence interprets 285 to require both an objectively baseless claim and subjective bad faith on the part of the—or bad faith on the part of the plaintiff. And that is a very exacting standard. And as Chief Judge Rader points out, it has resulted in extremely few findings of violation of 285 or, you know, the exceptional case standard.

Now, there are two cases in the Supreme Court pending right now that are set to look at that issue. So, query whether the Supreme Court will, despite some of the other comments on this panel, be able to significantly correct the situation. And history teaches us, if we look back at the eBay case and the injunction standard or the KSR case and the obviousness standard, that the Supreme Court—as well as other examples, the Supreme Court has done a good job in just the last 10 years or fewer of taking really thorny issues that were vexing to congressional action and resolving them.

So, I appreciate the comments that others have made today mentioning that Supreme Court looking at two cases. And, Congressman, you mentioned the need to achieve balance and the challenge of legislating in this area. And one might consider what good the Supreme Court can do to help.

Mr. JEFFRIES. Thank you.

Mr. BACHUS. Thank you, Mr. Jeffries.

At this time, Mr. Issa—

Mr. ISSA. Thank you, Mr. Chairman.

Mr. BACHUS [continuing]. And Mr. Issa has—is on your funding bill. He's on the funding bill.

[Laughter]

Mr. KAPPOS. Listen, I mentioned that in my opening remarks, Congressman Issa.

Mr. ISSA. This should help as I batter the witnesses with questions.

First of all, Mr. Chairman, I'd like to ask unanimous consent that a letter dated July 30, 2013, which went to the Chairmen both in the—and Ranking Members in the House and the Senate, be there—be submitted into the record because I'm going to speak on it.

Mr. BACHUS. Without objection.

[The information referred to follows:]

July 30, 2013

The Honorable Patrick J. Leahy  
Chairman, Committee on the Judiciary  
United States Senate  
224 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Bob Goodlatte  
Chairman, Committee on the Judiciary  
U.S. House of Representatives  
2138 Rayburn House Office Building  
Washington, DC 20515

The Honorable Chuck Grassley  
Ranking Member, Committee on the Judiciary  
United States Senate  
224 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable John Conyers, Jr.  
Ranking Member, Committee on the Judiciary  
U.S. House of Representatives  
2138 Rayburn House Office Building  
Washington, DC 20515

Dear Messrs. Chairmen and Ranking Members:

Members of both parties, the White House, legal scholars, economists, businesses, and public and private organizations increasingly recognize the need to address the growing problem of patent abuse. Wasteful and often frivolous litigation is burdening businesses and innovators across America. We need to ensure that our patent system promotes innovation and job creation, not abusive litigation. Real and lasting patent reform must deal with both symptoms — lengthy, expensive, and abusive lawsuits — and causes, including the flood of low-quality business method patents commonly behind the current epidemic of litigation.

Litigation brought by patent assertion entities (PAEs), commonly called trolls, has exploded in size and scope, and now represents a majority of all patent litigation.

In 2011 alone, patent troll activity cost productive companies \$29 billion in direct payouts, and even more in indirect costs. Increasingly, PAEs are targeting small- and medium-sized companies in every sector of our economy.

Too often, abusive PAE litigation exploits low-quality business method patents. The vague and sweeping scope of many business method claims covering straightforward, commonsense steps has led to an explosion of patent claims against processes used every day in common technologies by thousands of businesses and millions of Americans. PAEs often buy questionable business method patents and assert them against dozens of diverse businesses that use standard technologies like document scanners and common features of the Internet, like promoting discounts or conducting live web chats with customers. Indeed, business method patents are litigated nine times more often than other types of patents. These low-quality claims fuel suits seeking settlement payouts based on the costs of litigation, not the merits of the case. It rarely makes sense for a defendant to spend years in litigation and millions in legal fees to prove that a PAE patent is invalid when it could settle for much less.

We need an alternative to expensive litigation that lets the victims quickly and efficiently challenge the validity of dubious business method patents. Expanding an existing Patent Office program, the Covered Business Method (CBM) Program, beyond its current limitation of “financial services” business method patents to all business method patents would accomplish this goal. An expanded CBM Program would enable the Patent Office to reconsider the validity of issued business method patents and provide a targeted “surgical strike” against the worst of these frequently abused patents. And it would increase certainty for innovators actually bringing new products to market, who now face an increasing threat of extortive demands based on low-quality patents.

We were pleased to see the Administration support this initiative, and equally pleased to see growing bipartisan and bicameral support in Congress for patent quality improvement. We strongly support a package of reforms that would expand the CBM Program and address the root causes of PAE litigation abuse and its detrimental impact on American innovation and job creation.

We appreciate your support of this important initiative.

Sincerely,

Amazon.com, Inc.  
Seattle, Washington

AOL Inc.  
New York, New York

Dell Inc.  
Round Rock, Texas

Demandware, Inc.  
Burlington, Massachusetts

Dropbox Inc.  
San Francisco, California

EarthLink, Inc.  
Atlanta, Georgia

eBay, Inc.  
San Jose, California

Eddie Bauer LLC.  
Bellevue, Washington

Facebook, Inc.  
Menlo Park, California

Gilt Groupe, Inc.  
New York, New York

Google Inc.  
Mountain View, California

Hearst Corporation  
New York, New York

HomeAway, Inc.  
Austin, Texas

HTC Americas Inc.  
Bellevue, Washington

J.Crew Group, Inc.  
New York, New York

Netflix, Inc.  
Los Gatos, California

Newegg.com Inc.  
City of Industry, California

Overstock.com  
Cottonwood Heights, Utah

Priceline.com Incorporated  
Norwalk, Connecticut

Public Service Enterprise Group Inc.  
Newark, New Jersey

QVC Inc.  
West Chester, Pennsylvania

Rackspace Inc.  
San Antonio, Texas

Red Hat, Inc.  
Raleigh, North Carolina

Safeway Inc.  
Pleasanton, California

Salesforce.com Inc.  
San Francisco, California

Samsung Electronics America  
Ridgefield Park, New Jersey

SAS Institute Inc.  
Cary, North Carolina

Southern Company  
Atlanta, Georgia

Spotify USA Inc.  
New York, New York

SurveyMonkey  
Palo Alto, California

Jewelry Television Knoxville, Tennessee	Twitter, Inc. San Francisco, California
The Kroger Co. Cincinnati, Ohio	Verizon Communications Inc. New York, New York
LinkedIn Corporation Mountain View, California	Wal-Mart Stores, Inc. Bentonville, Arkansas
Macy's, Inc. Cincinnati, Ohio	Whataburger San Antonio, Texas
Media Temple, Inc. Culver City, California	XO Communications Herndon, Virginia
Morgan Stanley New York, New York	Yahoo! Inc. Sunnyvale, California
Mozilla Mountain View, California	Zynga, Inc. San Francisco, CA

cc: Members of Senate and House Committees on the Judiciary



Mr. ISSA. Thank you.

Mr. Kramer, your company was on this letter, which is no surprise, in support of expanding CBM to a certain extent, to a certain extent supporting the STOP Act, although not stating it. You obviously believe there needs to be a low-cost alternative to narrowing the claims or eliminating overly broad and poorly executed patents, is that correct?

Mr. KRAMER. That is correct, Congressman, yes.

Mr. ISSA. And by definition, if you've got bad patents—and, Mr. Armitage, I'll give you a chance to respond—but, if you've got bad patents in one category and they're being adjudicated, if you will, through a low-cost system and you have others that are being ignored but they're being executed on in court, isn't that inherently a flaw in existing legislation not to pick them up?

Mr. KRAMER. I think it's a flaw in existing legislation not to provide low-cost alternatives where, you know, you have these bad patents whatever their technology. And you don't provide the ability, you know, in a broad way to go back to the Patent Office to address those things. And post grant review and inter partes review have limitations in scope.

Mr. ISSA. And I certainly agree.

Mr. Armitage, you said—you talked about a hundred years of a standard. You're familiar with, until maybe 20 years ago—I think it's less than that—about 20 years ago, means-plus-function claims allowed somebody a quick and dirty way to describe an invention and then make an extremely broad under the doctrine of equivalence. Do you remember that?

Mr. ARMITAGE. Was it only—I'm sorry, I do remember before the Federal Circuit clarified how Section 112—

Mr. ISSA. They struck it down. They absolutely killed means-plus-function as a way to get broad patents while narrowly defining them, didn't they?

Mr. ARMITAGE. I don't want to get into a debate, but I still urged clients when I practiced used means-plus-function claims because they—

Mr. ISSA. As long as all they wanted was the means and the—that they were showing, correct?

Mr. ARMITAGE. I'm going to say you're substantially correct. And afterward we can discuss the exceptions.

Mr. ISSA. Well, the—Mr. Kappos, I lived under those old means-plus-functions as an inventor and as a manufacturer. And, you know, I saw people who took a couple of relays and popped them together and threw a patent with a line drawing out and then said, "Darn it, your microprocessor or your complex gate array with thousands of gates in it or huge amounts of memory, it's the equivalent," and tried to claim that because the output of the device did the same thing that it must have the same input. Do—you also remember that era of overly broad interpretation that, quite frankly, paled in comparison to what's happening today with business method patents, isn't it?

Mr. KAPPOS. I certainly do, Representative Issa—

Mr. ISSA. Not that you're that old, but you know I am.

Mr. KAPPOS. Over breadth associated with 112-6 would—definitely was a problem. It has been significantly reigned it.

Mr. ISSA. Well, it has. But there's a new generation. A new generation of workarounds, just as the eBay decision is being worked around by going to the ITC whenever possible to get an exclusion, because the court, when they said—they set a standard for injunctive relief they didn't consider that there's an entity just down the street that only does effectively injunctive relief. It's the only tool and they use it constantly because they have to. So, you know, legislatively, certainly, we have a similar challenge that the court only can consider what's brought to it. Well we can consider all the problems that are brought to us.

Mr. Kappos, you have a tough job. But, under the current law, if you do not have a standard to look at prior art as broadly as prior art is expressed when it comes before the Patent Office, don't you inherently find yourself in a situation in which examiners are constantly being told that prior art is narrow. Well in fact, if that same prior art were coming before a court it would, like the old means-plus-functions, suddenly be expansive. Isn't there a need for a standard change that makes it clear that you must consider prior art as broadly as possible from a standpoint of exclusion? And that's not currently the case. The examiners are often faced with claims that something means very little and with relatively little recourse to argue that point.

Mr. KAPPOS. Are you asking whether the court should have to move to the broadest reasonable interpretation instead?

Mr. ISSA. No. Actually, my point is the broadest reasonable interpretation standard should apply to what has already been invented. And one of the challenges is it's applied to your consideration of what a—an applicant is entitled to rather than the exclusion. The whole point is that the—and you mentioned earlier, the obviousness standard. We have a problem which is, if anyone of ordinary education—not necessary ordinary skill in the art—but of ordinary education reads the existing patents and then looks at a new patent, most often they search endlessly to try to figure out what's new. And they find a little nuance. You know, I had a relay and I had a car. And now I've got a relay, a car and a mobile radio. And they say, "Ah ha. It's the mobile radio." Or is it?

The fact is, we have a fundamental problem that regularly your examiners have a standard—which under the scrutiny of an opposition from an outside party bringing in the actual and real experiences, the actual products and what they do—are successful in narrowing patents dramatically on a regular basis, isn't that true?

Mr. KAPPOS. I see. So you're asking about the inferences that examiners are able to draw. Certainly, in my view as a citizen, that has improved. Since KSR and some of the cases that have interpreted it, further refinement clearly is needed. I would agree with you, Congressman Issa that providing the USPTO with greater flexibility to apply inferences and to expect applicants to respond to those to—in order to clearly specify patent claims is good for the whole system.

Mr. ISSA. When I was learning about patent law as a—both an inventor and as a manufacturer, you know, I understood that you could be sued for your—making, using or selling a product. But, I don't think I ever considered that on—of these 40 companies that the ones most concerned with people with great new technology

would be suing—being sued, I didn't think of Eddie Bauer, Safeway, J. Crew, Overstock.com, the Kroger Company, Macy's. Now, I've been in a lot of Macys'. I've been in Kroger. I've been in Safeway.

Isn't one of the problems that this Committee has to deal with is the growth of deep pocket large companies? And Mr. Poe talked about little companies and I was a little company. And I appreciate the cost of litigation. But, isn't one of our problems the idea that incidental use has made companies large targets just because they're using a product?

I've got Wi-Fi in my store and I'm going to be sued as a result. Is often—and isn't one of the most important things that we have to do, in the legislation we're looking at today, to make sure that the manufacturer, the—ultimately the entity, the single entity there probably is in the food chain, is the entity that deals with the eventual use of their product, rather than being sued in jurisdictions all over the country simply because I put a hundred Wi-Fi units into my store to help my customers. Or, you know, my airplane serves a certain type of food that somebody finds a way to have a patent on.

Mr. Kappos, I'll start with you and then I'd like to go to Mr. Kramer.

Mr. KAPPOS. Yeah. So, that's the stays for customers. And, as we've discussed, I certainly am in the group that would agree that retailers, right, the Kroger's of the world—

Mr. ISSA. Particularly when they're not selling the infringing product but simply using something that somebody has put through.

Mr. KAPPOS. If they're using it run their Wi-Fi's or if they're selling it, end users—and, you know, this would be Kroger in the role of an end user or Kroger in the role of a retailer, should be able to stay out of litigation. The trick is letting them do that in a way that doesn't also let every other party in the manufacturing value chain stay out of litigation. Because, if you do that, then you significantly devalue patents for companies in—you know, whether it's in auto alarms or any other industry where you've got, you know, lots of parties adding value to components, making more and more aggregated products. You don't want to devalue the whole patent system. You do want to protect the end users and the retailers.

Mr. ISSA. Well, and I know the Chairman's being understanding about my time.

But, you know, the intermittent wiper case was certainly a great case, under Avril Cohen, in which it added value to the car. And some understanding of entire market was the case. I'm pretty sure that the delivery of groceries at a Kroger's or a Safeway is not so dependent on Wi-Fi. And I certainly think that there's a fair test of entire market. But, that's not the test that currently these trolls are using when they choose to go after deep pockets.

Mr. Kramer, I'm—although the Chairman may allow others to answer. I'd like to just have—you know, you've been used as a big company. But, ultimately aren't you just a big target? And isn't that part of what you see every day?

Mr. KRAMER. Yeah. Thank you for that question. That is absolutely true. Since 2007, we have received roughly 70 patent infringement complaints. So, that's a huge increase in our litigation burden particularly when compared to the first 12 years of the company where we had, at any given time, two to three cases on our docket. Now, I mean—you know, a case—we settle cases, we get new cases. On our docket at any given time is 20 to 25 cases. So, we are a huge target.

And then, I think that has to do with the nature of the—our technology, the fact that, you know, you can see pretty easily what we do and the fact that software patents are, quite frankly, there are a lot of them out there on a lot of different things. And, yeah. It's—I can't emphasize how—enough how our situation has changed over the years.

Mr. ISSA. Thank you.

Mr. Chairman, I appreciate your indulgence. And I thank you for all the hard work that the Committee is doing to try to improve patent qualities and particularly empower the PTO to do so.

Mr. BACHUS. Thank you, Mr. Issa.

I wasn't really concerned, you did spend 12 minutes. But you—

Mr. ISSA. You know, I—it's the darnedest thing—

Mr. BACHUS. You almost—

Mr. ISSA. I just don't—

Mr. BACHUS. I've never heard you—

Mr. ISSA [continuing]. Have a clock.

Mr. BACHUS [continuing]. Badger a witness. But you came close on Mr. Armitage here.

Mr. ISSA. You know, Mr. Chairman, you know, if you come next door, we're accused to doing that to a number of people.

Mr. BACHUS. Oh, no. I've never noticed.

Mr. ISSA. Now, no. You know Eric Holder. Eric Holder said it was—he was a pleasure being here the last time.

But, Mr. Chairman, I do think it—this is so important. I appreciate the extra indulgence of time.

Mr. BACHUS. Well, thank you.

That will conclude our hearing.

I will make two comments. If you look at Section 9 of the legislation, that seems to be where a lot of the concern is for the post grant reviews and the business method patent review. And if each of you could go down, because you've—I know the Internet Association that Yahoo!'s a part of is on one side of this and some other companies are on the other. If you could take each of those subsections, like whether we—whether Section 145 is still necessary, the estoppel fix, all those different parts and just go through each one and tell us what your thoughts on those are—would be.

One of them is codifying the—taking the board's decision in the business—I think it's *Sap* versus *Versata*. Should that be—should we codify that, for instance, or just leave it alone?

Mr. KAPPOS. Yeah, I don't think we should.

Mr. BACHUS. Okay.

Mr. KAPPOS. I think that the Federal Circuit and the USPTO should have some time to further consider and refine that.

Mr. BACHUS. Right. Okay. Thank you.

That concludes today's hearing. Thanks to all of our witnesses for attending.

Without objection all Members will have 5 legislative days to submit additional written questions for the witnesses or additional materials for the record.

Now this hearing is adjourned.

[Whereupon, at 12:57 p.m., the Committee was adjourned.]



## A P P E N D I X

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MATERIAL SUBMITTED FOR THE HEARING RECORD

**EVERYTHING YOU EVER WANTED TO KNOW ABOUT DOUBLE PATENTING  
... BUT NEVER REALIZED THAT YOU NEEDED TO ASK  
(FROM THE MAKERS OF PROZAC)**

**Robert A. Armitage  
Eli Lilly and Company  
Indianapolis, Indiana**

***Introduction***

Double patenting is hardly a central concept of patent law. Until the start of the 21<sup>st</sup> century, it existed as a little more than an appendix to statutory requirements for patentable distinctness. Today, however, there are a few double patenting principles that every patent practitioner needs to know.

For the prior fifty years, the only exposure to the double patenting doctrine for most practitioners came in the unusual situations where a decision was needed as to whether a terminal disclaimer ought to be filed. Typically this circumstance would arise when a pesky patent examiner felt too many continuing patent applications were yielding too many patents on nearly – but not quite exactly – the same thing.

Most significantly, with the advent of the filing date-based patent term during the last decade, even the terminal disclaimer issue was being reduced to one of zero economic consequence. If a patent issued on a continuing patent application resulted in “double patenting” over the parent patent, there would no longer be any additional patent term to disclaim. Double patenting looked to be a mere technical doctrine designed to keep ownership of a family of patents together, but nothing more.

Just when the “double patenting” appendix looked as though it had completely atrophied, however, the Federal Circuit decreed a sweeping expansion of double patenting principles in *Eli Lilly and Company v. Barr Laboratories*, 58 USPQ2d 1865, 251 F3d 955 (Fed. Cir. 2001). Twenty-first century double patenting law now looks to be a different doctrine from its 19<sup>th</sup> and 20<sup>th</sup> century roots.

This paper examines the historical reach of double patenting and then takes a brief tour of the post-*Lilly* implications for patent procurement. While the tour is designed for the patent prosecutor, the patent litigation bar will undoubtedly enjoy coming along for the ride.

How has the Federal Circuit expanded double patenting law? First, its sting has grown more intense. In the 20<sup>th</sup> century, double patent typically truncated enforceability of a patent; today it can be a doctrine of patent invalidity, not just truncated enforceability. If the double patenting issue is identified too late for needed prophylactic action, it can today be irretrievably fatal to validity.



Second, the range of the doctrine has expanded. During the second half of the 20<sup>th</sup> century, the doctrine applied *as a separate consideration* only to those relatively few pairs of commonly owned patents where the statutory test for non-obviousness was disabled by statute – neither patented invention was statutory prior art to the other so the issue of patentable distinctness for two patented inventions was not assured. Today, all pairs of commonly owned patents – not merely the few exempted pairs – must be tested for double patenting.

The deadlier sting and the broader reach conspire to produce a third issue for the patent prosecutor. That third issue is the need to satisfy the duty of candor and good faith by disclosing the commonly owned patent applications upon which the post-*Lilly* law of double patenting will be applied. Wherever a patent examiner, applying *Lilly*, could make a so-called “provisional double patenting” rejection based on a commonly owned patent or patent application, the commonly owned application is *material* under the definition of 37 C.F.R. §1.56 and its disclosure to the patent examiner is mandated.

The implications for the post-*Lilly* world of patent procurement are two-fold. For the first time in two centuries of U.S. patent law, the patent practitioner needs to carefully review every patent in a commonly owned portfolio of patents for potential double patenting issues. Second, action to remedy the double patenting needs to be taken promptly, lest it fester into a new judge-made ground of irretrievable invalidity.

***The Genesis and Development of Double Patenting: A Brief Examination of the “Four Eras” of Double Patenting Law***

A useful starting point for any understanding of the law of “double patenting” is to dice the doctrine into four distinct “double patenting” eras:

- *The era before “non-obviousness.”* Today, double patenting goes by the more technically accurate moniker “obviousness-type double patenting.”<sup>1</sup> While that moniker developed because of the relationship between the judge-made doctrine and the statutory “non-obviousness” requirement of the 1952 Patent Act, double patenting was known and applied by the courts in the pre-1952 era. Double patenting decisions date back to the 19<sup>th</sup> century. Before the statutory standard of “non-obviousness” was enacted, the judicial doctrine of “double patenting” was loosely tethered to another judge-made aspect of the patent law, the so-called requirement for “invention.” Double patenting could be avoided if a second patent was “patentably novel” over the earlier patent, for a distinct invention independent from the earlier patent, or for a fundamental invention for which the earlier patent was a later-made improvement to it.

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<sup>1</sup> A second doctrine of double patenting, known as “same invention double patenting” is based upon 35 U.S.C. §101 and designed to prevent the grant of multiple patents containing claims with identical limitations – or at least claims where the proofs of infringement would be identical. No aspect of this doctrine is treated in this paper.

- *The era before the 1984 Patent Law Amendments Act.* Once the statutory test for non-obviousness was put in place in 1952, the U.S. Patent and Trademark Office acted to simplify and clarify the law of double patenting by appending the doctrine to 35 U.S.C. §103, the statutory test that superseded the “invention” requirement. Starting in 1967, the PTO affirmatively barred all “double patenting” rejections where the “non-obviousness” test operated to establish distinctness between two inventions, *i.e.*, except where the “grace period” meant that the same inventor (or the identical inventive entity) would file and obtain multiple “obvious” patents. The Court of Customs and Patent Appeals finally settled on a “safe harbor” for avoiding double patenting – if the later patent did not claim an “obvious variation” of the subject matter claimed in an earlier patent, there was no double patenting. In addition, it ratified the right to obtain a later-issued, basic patent free from double patenting even after the earlier patenting of a later-made improvement. Over two decades after the 1952 Patent Act was enacted, both the U.S. Patent and Trademark Office and the Court of Customs and Patent Appeals had at last produced a simple, limited, and nearly cohesive doctrine of double patenting that reigned until 1984.
- *The era before Lilly v. Barr.* The 1984 Patent Law Amendments Act contained a Congressional mandate that the U.S. Patent and Trademark Office act to expand the reach of double patenting law. No longer would the doctrine exclusively relate to patents of the same inventive entity. Congress was subtracting from the 1952 definition of “prior art” certain commonly owned inventions and insisted that the PTO cover the resulting contraction of the reach of the non-obviousness requirement. Thus, the amendment in what is now 35 U.S.C. §103(c) meant that the doctrine, once exclusively limited to same inventor/identical inventive entity patents, would now reach a limited number of commonly assigned patents. If 35 U.S.C. §103(c) subtracted one patented invention of a common owner from being prior art to another patented invention, the PTO would now add back judge-made double patenting to govern how the two patents could be enforced. The Federal Circuit also began analyzing double patenting cases under a “one-way/two-way” criterion under which a later-issued patent could in rare circumstances avoid double patenting if the earlier-issued patent was not an “obvious variation.”
- *The post-Lilly era.* In the aftermath of *Lilly v. Barr*, the Federal Circuit now requires that *every pair of commonly owned patents* be assessed under double patenting principles – regardless of whether the two patented inventions were nonetheless patentably distinct under 35 U.S.C. §103. Two patents of a common owner may need to jump two separate validity hoops whenever the order of invention does not match the order of patent issuance. The first hoop is that one patented invention will need to be non-obvious over the other as prior art. The second hoop is that the invention claimed in the later-issued patent will need to be a non-obvious variation of the invention claimed in the earlier-issued patent. In virtually every circumstance where the order of issuance is flipped, as it was in *Lilly*, the “double patenting” test will represent a “double non-obviousness test” –

each patented invention will need to be non-obvious over the other patented invention.

This paper will take a brief tour of these four eras of double patenting, ending the odyssey with some practical advice for those engaged in contemporary patent practice.

***Double Patenting: The Policy Imperative For It Yesterday, Today, and Forever***

When the Uruguay Round Agreements Act became law, some in the patent profession took the view that the double patenting doctrine would wither or, better perhaps, could be shot dead by the courts. Why have an arcane set of rules designed to prevent an unjustified extension of patent rights through the issuance of multiple patents *if patent terms fixed based on the original filing date of the patent application all but eliminated any possibility for such a timewise extension?*

The question, however, fails to account for the core issue mandating a judicial doctrine in the first place. The core issue addressed by double patenting is sometimes characterized as the “unjustified timewise extension of patent rights.” However, there is a much more sinister side to “double patenting” that mandates its application even absent any timewise extension. The central problem of a U.S. patent world without a double patenting law is that it would permit a proliferation of patent monopoly rights for nearly identical subject matter could be separately owned and independently enforced.

The 20-year patent term clearly removed some issues of unjustified timewise extension of patent rights. However, it did nothing to lessen the consequences arising from this *core issue*. Absent a vigorous doctrine of double patenting, multiple patents on patentably indistinct inventions could be validly granted and, thereafter independently owned by multiple persons – each of whom would hold fully and separately enforceable rights. A simple example suffices to demonstrate the necessary vitality for a contemporary doctrine of double patenting. Assume an inventor files an array of 100 identical patent applications on the same day, each with a single claim. The claims in the applications are all of differing scope, but can be lined up from broadest to narrowest like a nesting set of Russian dolls. The inventor issues the various patents, one after the other – from narrowest to broadest. As the respective “nested Russian doll” claims issue, the inventor could sell each patent to a different party and each patent could be validly enforced against anyone who infringed the first-issued patent – *absent the constraints on ownership arising from double patenting law*.



The one invariant feature of double patenting law is that a member of the public who, absent rights under a patent, would infringe the patent should not bear the burden of obtaining rights under a second and the subsequent patents unless the patented inventions at issue are patentably distinct. Allowing one inventor to nest claims from narrow to broad in a series of two, five, ten, twenty or even 100 separate patents would be unworkable for the public if it meant dealing with 100, twenty, ten, five or even two

different owners of independently valid patents. Anyone practicing an invention that fit into the Russian doll in the center of the nest would be outraged. Hence, double patenting is here to stay – *forever*.

Double patenting is ultimately grounded in the insanity of a patent system that would allow a single entity to endlessly proliferate valid patents for the same patentable invention. It is this insanity that creates the secondary problems – the potential for harassment of the public by independent owners of double patents and, secondarily, the potential for an unjustified timewise extension of a patent monopoly.

***The 19<sup>th</sup> Century Law of Double Patenting – Pre-“Non-Obviousness” Double Patenting***

For over 100 years, from 1850 to 1952, the Supreme Court required that valid patents could only exist where there was “invention” or “patentable novelty” over the prior art. Mere “technical novelty” required under the “new and useful” rubric of the patent statute was insufficient if the new invention could nonetheless be viewed as the work of a routine mechanic. *Hotchkiss v. Greenwood*, 52 U.S. 248 (1850).

The amorphous test of “invention” produced a no less amorphous notion of “double patenting.” The doctrine got its start in the post-*Hotchkiss* era in the Supreme Court decision, *Miller v. Eagle Manufacturing*, 151 U.S. 186 (1894). The Supreme Court held that the second of two related patents of the same inventor that had been serially awarded was void.

The facts of *Miller* involved the remarkably ancient practice of *voluntarily* dividing an originally filed patent application into two separate applications so that the two patents eventually issued on an identical patent disclosure. The obscurity of the 19<sup>th</sup> century double patenting doctrine is best evident from looking at the patent claims that confronted the Supreme Court in *Miller*. The earlier-issuing patent claimed essentially a “spring” that was configured in such a manner as to accomplish the following function (claim 1):

In combination with [1] a vertically-swinging beam or drag bar, [2] a spring *substantially as described and shown*, arranged to urge the beam downward when in action and urge it upward when it is lifted above the operative position.

Claim 1 of the later-issuing patent, explicitly to a “cultivator,” appeared as follows:

In a cultivator, the combination of [1] a vertically-swinging drag bar or beam and [2] a lifting spring which acts with increasing force or effect on the beam as the latter rises, and vice versa.

The originally issued patent would in today's parlance contain a "picture claim" in the sense of apparently limiting the patent embodiment described – not merely to a spring, but to the cultivator with the spring arrangement set out in the figures and text of the patent. The second-issuing patent, in contrast, appears to encompass any spring arrangement in a cultivator to which a spring is arranged for "lifting" the drag bar of the cultivator.

Defining the parameters of an 1894 double patenting doctrine for a contemporary patent practitioner is difficult. The idea of "non-obviousness" was entirely unrefined compared to contemporary patent law. Moreover, the concept of claiming itself was far less developed – the claims in the patent would likely not pass muster under the current norms of practice. The ideas of "distinct claiming" and the ability to parse claims simply into elements and limitations to determine if one claim stood as an obvious variation of another was far less developed.<sup>2</sup>

The Supreme Court appeared to use a combination of modern tests for restriction practice under 35 U.S.C. §121 (the "independent and distinct invention" test) to find double patenting. In its effort to apply non-obviousness-like considerations, the Court stated that it "did not involve *patentable novelty* to drop or omit from the [later-issuing] patent a claim for the depressing action of the spring arrangement which might be effected by any mere mechanical contrivance." 151 U.S. at 200 (emphasis supplied). Separately, the Court presaged the modern statutory test of 35 U.S.C. §121 by noting that a second patent could have been justified if the later-issuing claim "is clearly *distinct from and independent of*, one previously patented." 151 U.S. at 199 (emphasis again supplied).

Besides a "patentable novelty" (*i.e.*, non-obvious variation), and a "distinct from and independent of" (*i.e.*, independent and distinct invention) test for assessing whether an inventor's own later-issuing patent might escape double patenting, the 19<sup>th</sup> century law recognized yet a *third exception*. The third exception was based upon the *order of invention*. If different inventors had made both inventions and sought both patents in otherwise the same manner as the same inventor had done, would both patents have validly issued *based upon the order of invention*?

The third exemption from double patenting was based upon the realization that an inventor patenting both a basic innovation and a later-discovered improvement was not normally to be barred from patenting both inventions separately – since different inventors would readily be able to do so if the improvement invention was patentably novel over the basic innovation.

The seminal case holding that the double patenting rules must account for the order of invention was *Thomson-Houston Electric Co. v. Ohio Brass*, 80 F. 712 (6th Cir. 1897). In this appeal, two inventions had been made by the sole inventor Charles J. Van

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<sup>2</sup> The inventor was then, as today, required to "particularly point out and distinctly claim the part, improvement, or combination which he claims as his invention or discovery." Sec. 26, Patent Act of 1870, Chapter 230, 16 Stat. 198-217.

Depoele – one a basic and fundamental invention, the other an improvement. Two Van Depoele patent applications had been filed a year apart – first one for the basic invention, then later one for the improvement. The two patents issued. While the improvement patent issued *less than three months* after the later application for patent was filed, the patent for the fundamental discovery languished in the Patent Office for *just over three years*.

In this appeal Judge Taft, later to become Chief Justice, was asked to find that, for the earlier-made fundamental invention, “if, by some chance, the application for the fundamental patent is delayed in its course through the patent office until a patent on the avowed improvement has issued, then the patent on the improvement on the fundamental invention is void.”

Judge Taft noted that this could not and should not be the patent law because of the nonsensical harshness of such a result, noting that “where the delay in the issuing of the patent for the main invention cannot be charged to the laches or fraud of the patentee, such a rule would be a hard one; and unless it is required by the express words of the statute, or by the express holding of the Supreme Court, we should be inclined, if possible, to avoid declaring it to exist.”

The Sixth Circuit held the patent entirely valid and free from double patenting. The result – at least where the basic patent and the improvement patent represented inventions of the same inventor, but for which separate patents are sought separately – should be the same as though invented by different entities. Thus, where the “order of invention” would demand that separate and valid patents would be granted to different entities, the same inventors could have both patents entirely free from double patenting. Hence, an improvement patent cannot impact the validity under double patenting rules for an earlier-sought patent for the basic discovery upon which the improvement was built.

The decision in *Ohio Brass* produced a 19<sup>th</sup> century corollary. If the “order of invention” test was relevant for inventions such as the Van Depoele inventions where neither patented inventions represented prior art to the other, the same outcome must apply *a fortiori* to any situation where the improvement patent faced the patent on the fundamental invention as prior art. In this situation, failing to apply the *Ohio Brass* rule – requiring a look at the respective dates of invention – would have produced not merely a harsh result, but a ludicrous one. The inventor would be barred, except upon forfeiture of a patent for a basic invention, of patents for improvements – unless the inventor were willing to delay issuing the patents for the improvements until all aspects of the basic invention had been patented.

The 19<sup>th</sup> century saw the parameters of double patenting set in place. The law of double patenting impacted – as today – on claims to subject matter that, while not identical in scope, could nonetheless not be permitted to proliferate through separate and independent patents. While the law might apply harshly to an inventor voluntarily dividing an original patenting application into separate pieces to gain separate patents, it

did avoid such a harsh result for clearly separate inventions of an inventor for which separate patents were sought.

Under the 19<sup>th</sup> century double patenting law, gaining a second patent could require the later-issuing patent be directed to an independent and distinct invention from the original patent or be regarded as double patenting. The law could require that the later-issuing patent be limited to subject matter of “patentable novelty” or be lost to double patenting. However, it did not conflict with one fundamental notion of the patent law – a later-made improvement invention translated into a patent application separate from the application for the fundamental invention on which it was based, could not invalidate the patent to a basic invention invented earlier, but ultimately issued as a patent later.

*The Pre-1984 Law of Double Patenting – The 1967 Official Gazette Notice*

Once non-obviousness was codified in 1952, the C.C.P.A. was ultimately able to define a coherent body of “obviousness-type double patenting law. Its most important feature was a “safe harbor” in which all potential double patenting issues were avoided. The touchstone of the “safe harbor” test was whether a second-issued patent was claiming an invention “non-obvious” – *i.e.*, not an “obvious variation” over each of the claims of the earlier-issued patent.

The safe harbor applied equally to patents sought separately and to patents resulting from the division of a single patent application. Further, the safe harbor did not depend upon the order of invention for the two patents or issues such as laches or other delays in issuing of the second patent relative to the first.

A second important landmark in the emerging clarification of double patenting law was a 1967 U.S. Patent and Trademark Office notice on the reach of double patenting law. With a non-obviousness requirement in the statute and the standard for prior art to be used in determining non-obviousness likewise defined in the patent statute, the patent statute itself defined circumstances where two patented inventions were patentably distinct and the methodology for making that determination. The PTO took advantage of this framework in its notice – finding a way to elegantly limit the need to address double patenting.

The PTO’s seminal Official Gazette Notice on the reach of double patenting law stated:<sup>3</sup>

The term “double patenting” is properly applicable only to cases involving two or more applications and/or patents of the same inventive entity and should not be applied to situations involving commonly owned cases of different inventive entities. ...

In situations involving cases filed by different

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<sup>3</sup> “Double Patenting” (834 O.G. 1615, January 9, 1967).

inventive entities, regardless of ownership Sections 102 and 103 of 35 U.S.C. preclude the granting of two or more patents when directed to identical inventive concepts or when one of the concepts would be obvious in view of the other.

The notion that *every* pair of patents and/or patent applications of *different* inventive entities could not produce double patenting was predicated, however, on the notion that the provisions of 35 U.S.C. §§102(g)/103 would invariably result in one of the pair being prior art to the other of the pair so that the non-obviousness requirement would always assure that no two patents of different inventive entities would lack patentable distinctness. The corollary to *Ohio Brass* had thusly become the uniform practice of the PTO by 1967.

In 1973 the C.C.P.A. expressly ratified a key tenet of the 1967 notice. The court put to rest any possibility that a pair of patents, even if commonly owned, might claim merely patentably indistinct inventions. In its decision *In re Bass*, 177 USPQ 178, 474 F.2d 1276 (CCPA 1973), the court held unequivocally that, “the prior invention of another who had not abandoned, suppressed, or concealed it, ... which include[s] the disclosure of such invention in an issued patent, is available as ‘prior art’ within the meaning of that term in §103 by virtue of § 102(g).”

By 1982, the C.C.P.A. had expressly ratified the *Ohio Brass* corollary and the PTO’s observation that it was the unique ability of a single inventive entity to evade all prior art except the “one-year statutory bar” provisions of 35 U.S.C. §102(b) that gave rise to any possibility of double patenting. As noted by *In re Fout, Mishkin, and Roychoudhury*, 213 USPQ 532, 675 F.2d 297 (CCPA 1982), this narrow circumstance arises because the “by other” and “of another” limitations on statutory prior art in 35 U.S.C. § 102(a), (e), and (g) meant that an inventor’s own work was not invariably “prior art” to that inventor:

Absent a statutory bar under 35 U.S.C. §§102(b), (c), or (d), an applicant’s own invention cannot be “prior art” to him. However, applications having the same inventor and claiming the same invention are subject to rejection for double patenting. In contrast, if the inventors are different, *no such rejection can be made*; rather, an interference is in order. (Emphasis supplied.)

213 USPQ at 535.

Thus, the potential issues of double patenting fell entirely on an inventor, such as in *Miller v. Eagle*, who sought multiple patents – typically by a *Miller*-type “voluntary divisional” application or by some other use of the “grace period” that eliminated the inventor’s own prior inventions from prior art unless captured by 35 U.S.C. §102(b). Patents of different inventive entities – whether commonly owned or owned separately – could not be sanctioned for double patenting. In every such case, one of two such patents



would be prior art to the other. Unless the two patented inventions were patentably distinct in the first instance, the later-invented of the double patents could not validly issue in the first place.

As the law of double patenting coalesced around a single inventive entity seeking to divide patentably indistinct claims among multiple patents, the C.C.P.A. refined three distinct circumstances in which the courts should conclude that no double patenting existed.<sup>4</sup> The seminal holdings of the C.C.P.A. that moved the 19<sup>th</sup> century double patenting law into the 20<sup>th</sup> century were—

- *In re Stanley*, 102 USPQ 234, 214 F.2d 151 (CCPA 1954). The *Stanley* exclusion from double patenting applied to two patents respectively directed to a basic invention and later-made improvement invention that could not have both been reasonably or readily claimed in a single application for patent. *Stanley* effectively carried the *Ohio Brass* holding forward. Under pre-1984 U.S. patent law, the *Stanley* exclusion effectively guaranteed that double patenting could not exist between two claims of different inventive entities since they could never be made the subject of a single application for patent.
- *In re Vogel*, 164 USPQ 619, 422 F.2d 438 (CCPA 1970). The *Vogel* “safe harbor” from double patenting applied whenever a later-issued patent does not claim an “obvious variation” of any claim in an earlier-issued patent. The *Vogel* exclusion was crystallized in a decision that provided a comprehensive restatement of the law of “obviousness-type double patenting” in which the C.C.P.A. held that no double patenting can exist where non-obviousness for the later-issuing patent has been established given that the claims of the earlier-issuing patent were treated as the equivalent of prior art.
- *In re Schneller*, 158 USPQ 210, 397 F.2d 350 (CCPA 1968). The *Schneller* criterion for double patenting applied to two patented inventions that were or could have been originally claimed in a single application for patent and failed to meet the “independent and distinct” invention test for restriction. The *Schneller* holding represented the C.C.P.A.’s adaptation of *Miller v. Eagle* to the 1952 Patent Act’s codification of the requirement for restriction in 35 U.S.C. §121 – if the U.S. Patent Office did not and would not properly have issued separate patents, then the involved patent claims represented double patenting.

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<sup>4</sup> For applications filed before the 1967 Official Gazette notice, inventions of *different inventors* were sometimes treated as though made by the *same inventor* in order to invoke “obviousness-type double patenting.” This analytical approach appeared to be used because no statutory prior art was applied to permit a statutory determination of patentable distinctiveness to be made. The Federal Circuit has explained these appeals as ones that “treated commonly-owned applications by different inventors as though they were filed by the same inventor, and then relied upon the doctrine of double patenting of the obviousness type to deny a second patent on subject matter not patentably distinct from the claims of the first patent.” *In re Longi et al.*, 225 USPQ 645, 659, 759 F.2d 887 (Fed. Cir. 1985).

Hence, a practitioner seeking a second patent on an invention of the same inventor potentially had three separate bases for avoiding double patenting and could, given the facts, serially argue:

- *Not an “obvious variation.”* No claim in the application was an obvious variation (cf. 35 U.S.C. §103) of any claim in the earlier-issued patent.
- *Prior-issued patent to a later-made improvement.* The earlier-issued patent was for a later-made improvement invention that could not have been reasonably claimed together with the pending application’s claim for the earlier-made basic invention.
- *Independent and distinct inventions.* The claims in the application and the earlier-issued patent represent independent and distinct inventions (35 U.S.C. §121).<sup>5</sup>

**THE EXCLUSION FROM DOUBLE PATENTING FOR BASIC INVENTIONS  
AND IMPROVEMENT INVENTIONS – THE DOCTRINE OF IN RE STANLEY**

The C.C.P.A. decided *Stanley* shortly after the enactment of the 1952 Patent Act. The court was squarely faced with the issue of whether an earlier-issued improvement patent produced double patenting when a later-issued prior art patent of the same assignee issued.

The C.C.P.A. applied an ancient rule from *In re Calvert*, 97 F.2d 638, 38 USPQ 184 (CCPA 1938), barring the application of the *same inventor’s* improvement patent, even if earlier issued, from being cited for double patenting purposes against the inventor’s later-issuing patent for a basic discovery. In *Stanley*, the C.C.P.A. described how basic/improvement patents were to interface with double patenting. So long as the improvement patent claims were limited to the specifics of the improvement, the second patent to the generic invention was excused from possible double patenting:

[In *Calvert*] the appellant had filed his application on a broad invention, and about four months later filed an application on an improvement over the broad invention. A patent first issued on the improvement, the claims of which were then used to reject the claims to the broad invention. The sole issue before this court was the rejection on double patenting. We reversed the Board of Appeals because we were of the opinion that the claims of the patent required

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<sup>5</sup> Arguably, the *Schneller* exclusion from double patenting is of no more than theoretical interest or importance. First, as described below, in *Schneller* double patenting was found to exist because the inventions at issue were not independent and distinct. Second, the “independent and distinct” test is probably swallowed whole by the “obvious variation” test – if it is sufficient for the second patent to avoid any claim to an “obvious variation,” why engage a more demanding test to establish that a “distinct” invention is also “independent?”

the presence of a specific element not found in the claims to the generic invention.

38 USPQ at 239.

The rule in *Calvert*, as the C.C.P.A. noted, was necessitated by the need not to prejudice the common assignee who obtained both patents to an earlier, prior art invention, but first patented a later-filed, later-made invention directed to a non-obvious improvement. The *Stanley* court noted that this exact issue had arisen in *In re Howard*, 759, 53 F.2d 896, 11 USPQ 280 (CCPA 1932). A common assignee owned both the improvement invention of Howard and the earlier-made, but later-filed invention of Peiler. Applying the principles of prior invention law, the C.C.P.A. determined that it must effectively treat this pair of inventions as though they were not commonly owned. Doing so, the dates of invention indicated patentable distinctness and this patentable distinctness precluded application of double patenting principles:

Certainly, if we were not confronted with a common assignee of both inventions, upon the record before us, Howard would clearly be entitled to the allowance of the claims in issue, as an improvement in the invention patented to Peiler, as Peiler in his affidavit impliedly disclaimed being the inventor of such improvement, even though it was described in his application, and also because his application was filed later than that of Howard. *Miller v. Eagle Manufacturing Company*, 151 U.S. 186. If, in such case, an interference had been declared upon the two applications, upon the record made an award of priority would have been made to Peiler upon claims [to the improvement] of his application, and an award to Howard upon the claims here in issue.

11 USPQ at 283.

The court made clear that insofar as basic invention and improvement inventions were concerned, there was no double patenting if the improvement patent claims were non-obvious – the only circumstance in which two valid patents could have issued in the first instance. In disposing of the possibility of double patenting, the court indicated that the *Howard*-like “interference test” would produce two valid patents by separate owners and, therefore, a common owner could *a fortiori* not be denied both patents:

[A]ppellants were the inventors of the generic invention as defined in the appealed claims. The [earlier-issued patent granted on the] Truitt application was not filed for more than two years after the filing of the instant application, and was limited to an improvement over the generic invention. All of the claims in the Truitt patent are limited to that improvement and none of those claims are

readable on the appellants' disclosure. Further, were it possible to declare an interference between the patent and the application, there is no doubt that appellants would be awarded priority of the broad, generic claims while Truitt would be awarded priority of the specific improvement, of which he is the inventor. Also, it is obvious that the assignee is not fully protected, in the matter invented by his assignors, by the specific patent to Truitt.

We are of the opinion that the appealed claims are distinguishable from the patent claims in that the improvement is limited [in a specific respect], while no such limitations are found in the appealed claims. ... We are of the opinion that the generic invention is not rendered unpatentable by the fact that a prior patent has been issued on a distinct improvement of that invention.

102 USPQ at 240.

Even if the earlier-issuing patent to the improvement was improvidently issued because the improvement might not be deemed a patentably distinct invention, that alone could not establish double patenting based on the subsequent issuance of a patent on the earlier-invented, basic innovation:

If there is no patentable distinction between the appealed claims and the Truitt claims it would appear that the patent should not have been issued. We would not favor denying appellants their patent because of an error made by the Patent Office, if such an error were in fact made. So on this basis we also believe that appellants should be allowed their claims.

102 USPQ 241.

Another important C.C.P.A. decision that cemented this line of authority was *In re Borah*, 148 USPQ 213, 354 F.2d 1009 (CCPA 1966). In *Borah*, the C.C.P.A. noted that a later-filed application for an improvement, made fewer than six months from the filing of the patent for the basic invention of the *same inventor*, was nonetheless not a situation in which double patenting existed – if the claims of the earlier-issuing improvement patent were strictly limited to the improved combination. Of greatest interest in *Borah* is the C.C.P.A.'s explicit rejection of a “could have been filed together” standard for determining whether or not the *Stanley* rationale would hold. The Solicitor of the Patent Office had urged the C.C.P.A. that the six months difference in filing of the two patent applications surely meant that both the basic invention and the improvement could have been filed together in a single application for patent, there being no diversity of inventorship or infirmity based upon intervening prior art:

Upon developing his improvements of the basic apparatus, appellant had the clear choice of (1) filing a continuation-in-part application to include both the basic subject matter and the improvements or (2) filing a separate application on the improvements. The former course was indicated if there was any question as to whether the improvements were separately patentable. The latter course was proper only if appellant had no doubts as to the patentable nature of the improvements and was willing to defend that position on the merits. *By choosing to file a separate application, appellant assumed the risk of the possible issuance of that patent before an issue was reached on his earlier application, and the consequent risk of possible loss of the broader protection sought in the basic application claims.*

148 USPQ at 218

The C.C.P.A. rejected this notion foursquare and reaffirmed what both *Calvert* and *Stanley* indicated was a necessary consequence of having an improvement come after the filing of a patent application on a basic discovery. As long as the earlier-issuing patent claims are limited to the later-made improvement, a later-issuing patent for the basic invention is not double patenting.

The basic innovation in *Borah* was the combination of “ABC” with “UL,” *i.e.*, “ABC+UL.” The later improvement by Borah was adding “Y” and/or “Z” to this innovation, *i.e.*, “ABC+UL+Y” and “ABC+UL+YZ.” Having been issued claims to these more specific improvements, there was a later-issuing patent more broadly claiming “ABC+UL.” Was the broader patent a double patent given that it would entirely dominate the patented inventions “ABC+UL+Y/Z”? Rejecting that the “omission” of elements Y/Z in the improvement would render obvious the basic innovation in “ABC+UL,” the court indicated that the test of obviousness for double patenting, as in *Stanley*, needed to be done in the apparent order of invention:

[T]he *omission* of an element [Y or Z] known to be present in a structure ... is not a question involved in the [double patenting] issue. The obviousness issue turns on the addition of structure [Y and/or Z], the obviousness of the improvement defined in the patent claim [ABC+UL+Y/Z], not the obviousness of the basic structure [ABC+UL], given the improvement as prior art, which it is not. The board, moreover, seems to be applying the well-known negative test for patentability, namely, that it cannot be based on the *mere omission, from a prior art structure*, of an element together with its function. We have no prior art here. [Emphasis in original.]

213 USPQ 221

The pre-1984 patent law did, thus, evidence a firm respect for the separate patentability of basic and improvement inventions, without implications of double patenting, whether separately owned, separately invented, or the common invention of a single entity, including situations where a reasonable basis for seeking patents separately existed.

**THE EXISTENCE OF DOUBLE PATENTING WHERE DIVISION IS  
VOLUNTARY AND THE DIVIDED INVENTIONS ARE NOT INDEPENDENT  
AND DISTINCT, IN RE SCHNELLER**

The C.C.P.A. decision *Schneller* represents a counterpoint to the basic invention/improvement invention paradigm of *Stanley* and its more contemporary progeny such as *Borah*. In *Schneller*, as in *Calvert* and *Borah*, there was originally only one inventor. However, unlike in *Calvert* and *Borah*, only one patent application was filed. Moreover, there was originally only one set of claims to an apparatus filed in the single patent application. Further, the single patent application depicted the invention being claimed by a single patent drawing. In short, the facts of *Schneller* afforded no basis for any possible inference that the inventor had devised a basic invention from which a later improvement had been made. Indeed, based upon the facts in *Schneller*, it is difficult to imagine separately seeking patents for a basic invention and an improvement.

In contrast, by voluntarily dividing the patent application in two, Schneller sought to claim what appeared to be but a unitary apparatus depicted in the patent drawing through a contrivance of *different combinations of claim limitations*. Because there was only a unitary apparatus that, based upon any reasonable inference, could only have had a single invention date (however differently claimed), the C.C.P.A. could not apply the *Stanley* doctrine. Instead, it reached a simple holding that equated double patenting in this circumstance to everyday restriction practice, holding that:

The public policy considerations underlying 35 U.S.C. §121 permit separate patents on “independent and distinct” inventions which are initially “claimed in one application.” The statute places initial responsibility for this determination on the Commissioner of Patents. Where, as here, no such determination has been made, it is necessary to scrutinize carefully an applicant’s voluntary alleged determination of this issue for it can lead to the improper proliferation of patents on the same invention with the inherent result of extending timewise a patentee’s right to exclude others from the invention disclosed in the original application and on which his patent has issued.

158 USPQ 214-215.

It would appear from *Schneller* that in any circumstance where it would not be reasonably possible to reasonably apply the *Stanley* criteria that one patented invention was chronologically prior art to a later improvement, *e.g.*, whenever the claims were sought initially in the same application for patent, then double patenting would exist unless the statutory test for restriction were satisfied – the respective inventions claimed in the two patents must be deemed independent and distinct or they are double patenting.

The *Schneller* test for double patenting is profoundly different from the assessment done in *Stanley*. Most profoundly, however, the juxtaposition of *Stanley* and *Schneller* make crystal clear that it is *how inventions are made* and *how patents for them are sought* that can determine when two patented inventions are double patenting.

Simply twist the *Borah* facts slightly so that the initial discovery of *Borah* was the combination of ABC+UL+Y/Z, for which a single patent was initially sought with claims for ABC+UL, ABC+UL+Y, and ABC+UL+YZ. If the claims to ABC+UL were then voluntarily divided out – the *Schneller* facts as twisted – then the earlier issuance of a patent from the original application would subject the ABC+UL claims to the “independent and distinct invention” test with respect to the earlier-issued patent claims to ABC+UL+Y and ABC+UL+YZ. Undoubtedly, the *Schneller* rationale would have commanded that the result be reversed and double patenting be found to exist.

Similarly, following *Stanley*, if any inventor established that a generic invention was made earlier and a non-obvious species was discovered later, the issuance of a patent for the species invention could not represent double patenting with respect to a later-issuing patent for the genus. However, under *Schneller*, the precise same pair of patents would represent double patenting if the application record could not create any inference as to which invention came first.

Indeed, if the inventor first discovered the species and used that as a step in the definition of the genus, then there would be every reason in law and in logic to apply a double patenting rule. Applying a *Stanley*-like “invention date” assessment would simply mean that the two inventions should not both be patented. Even the pseudo-interference criteria used by the court in *Stanley* would lead to the conclusion that the species claim should issue, but no separate award of priority should be made for the genus claims – precluding them from being separately patented.

The moral of the double patenting story – at least up to the end of the 1960’s – should have been for inventors to be wary of *how* they seek patents because of the bearing on how double patenting would apply.

**A “SAFE HARBOR” – THE VOGEL STANDARD APPLIES WHENEVER THE LATER-ISSUING CLAIMS DEFINE A NON-OBVIOUS VARIATION ON THE EARLIER-ISSUED PATENT CLAIMS**

It should be obvious that attempting to look at a prosecution history and determine whether a *Stanley* analysis or a *Schneller* analysis should apply to identical

claim sets in two patents could prove complex, fact-intensive, and particularly burdensome. Fortunately, a double patenting “safe harbor” was created by the C.C.P.A. in 1969 that obliterated this complexity in most instances. This “safe harbor” was the adoption of the “non-obvious variation” test that, if met, obviated the need to undertake either a *Schmeller*- or a *Stanley*-type analysis. The test was simply, legal, and objective: were the claims of the later-issuing patent a non-obvious variations of each of the claims of the earlier-issued patent? If so, no double patenting existed.

The C.C.P.A. decision most clearly announcing the “safe harbor” rule was *Vogel*. After distinguishing so-called same-invention double patenting under the statutory requirement of 35 U.S.C. §101, the *Vogel* court proceeded to define the obviousness-type double patenting test applicable under judge-made law and its relationship to the patent specification in which the claim arose:

Does any claim in the application define merely an obvious variation of an invention disclosed and claimed in the patent? We recognize that it is most difficult, if not meaningless, to try to say what is or is not an obvious variation of a claim. A claim is a group of words defining only the boundary of the patent monopoly. It may not describe any physical thing and indeed may encompass physical things not yet dreamed of. How can it be obvious or not obvious to modify a legal boundary? The disclosure, however, sets forth at least one tangible embodiment within the claim, and it is less difficult and more meaningful to judge whether that thing has been modified in an obvious manner. It must be noted that this use of the disclosure is not in contravention of the cases forbidding its use as prior art, nor is it applying the patent as a reference under 35 U.S.C. §103, since only the disclosure of the invention claimed in the patent may be examined.

164 USPQ 622

The standard in *Vogel* has clearly eclipsed the application of *Schmeller* – any inventor establishing that the later-issuing patent was for a non-obvious variation would not need to resort to the tougher hurdle of meeting an “independent and distinct invention” test. Similarly, any inventor claiming an obvious variation on an earlier-issued patent claim would have little hope that the two claimed inventions could be found to be mutually independent and distinct.

This did not, however, mean that the analytical dichotomy of *Schmeller* and *Stanley* would not continue to apply, depending critically on how the claimed inventions had come to be patented. Indeed, an identical pair of patent claim sets could be either independently valid under *Stanley*, or double patenting under *Schmeller*, if the claims of the later-issuing patent could not dock in the safe harbor of *Vogel*.



*The Pre-Lilly Law of Double Patenting – The Impact of the Patent Law Amendments Act of 1984*

By the end of 1983, neither the U.S. Patent and Trademark Office nor the courts nor patent litigants needed to worry about double patenting except in the narrow circumstances where the same inventive entity had managed to procure two or more patents. Even then, the law of double patenting was limited, especially if circumstances dictated – or made it plausible – for the two patents to be separately procured.

However, the flipside of the limited role for double patenting was the expansive role of non-obviousness. While an inventor's own work (including patents on related work) was not prior art to the inventors themselves, it was prior art to the remainder of the universe, co-workers included. The patent community was willing, therefore, to trade less statutory prior art among inventions that would be owned by a common assignee for more double patenting – to reign in the impact of patents on what otherwise would be (potentially, at least) patentably indistinct inventions that could be freely alienated and, therefore, enforced by independent owners.

A second, equally profound change was made in 1984. Instead of a single inventive entity being needed for every claim in a patent for any claim in the patent to be valid, the inventorship laws were changed. Henceforth, the named inventors on the patent would be the inventors, sole or joint, of at least one patent claim.

The impact of these two changes on double patenting law would be profound. A vastly larger number of claimed inventions could be filed in a single application for patent simply by naming as inventors all the respective inventors in fact of the individual claims in the application for patent. Second, with no statutory test for patentable distinctness remaining where 35 U.S.C. §103(c) exempted certain commonly owned inventions as prior art, double-patenting principles would now be extended to all such commonly owned patents. As the House IP subcommittee stated in enacting the law:

The Committee expects that the Patent and Trademark Office will reinstitute in appropriate circumstances the practice of rejecting claims in commonly owned applications of different inventive entities on the ground of double patenting. This will be necessary in order to prevent an organization from obtaining two or more patents with different expiration dates covering nearly identical subject matter. In accordance with established patent law doctrines, double patenting rejections can be overcome in certain circumstances by disclaiming the terminal portion of the term of the later patent, thereby eliminating the problem of extending patent life.

*Section-By-Section Analysis of H.R. 6286, Patent Law Amendments Act of 1984, Congressional Record, Oct. 1, 1984, H10525-10529.*

The U.S. Patent and Trademark Office immediately complied with the Congressional mandate to expand its practice of applying double patenting rules to the precise set of patent applications of common owners that were exempted from “prior art” under 35 U.S.C. §§102(f) and (g). (“The Patent and Trademark Office has withdrawn the Commissioners Notice of January 9, 1967, Double Patenting, 834 O.G. 1615 (Jan. 31, 1967), to the extent that it does not authorize a double patenting rejection where different inventive entities are present. The examiner may reject claims in commonly owned applications of different inventive entities on the ground of double patenting. This is in accordance with existing case law and prevents an organization from obtaining two or more patents with different expiration dates covering nearly identical subject matter.” M.P.E.P. 804.03, Rev. 6.2).

Now that the arcane issue of double patenting would arise whenever a portfolio of related patents was sought by a common assignee, how would the simple principles adapted for a law that related to what a single inventor might do in seeking a multiplicity of patents be molded? Most particularly, what would become of doctrines, such as *Stanley*, that could be universally applied to “different inventive entity” patent applications now that many such patent applications could simply be patented based on a common original application containing claims to inventions of the various inventive entities?

#### **THE “ORDER OF INVENTION” ANALYSIS GETS A NEW NOMENCLATURE TWIST: IN RE BRAAT**

In a Federal Circuit decision in 1991, the court not only had the opportunity to revisit the pre-1984 rationale of *Stanley*, *Borah*, and decisions of a similar ilk, but took the opportunity to explain in more detail a *rationale* for these decisions on basic/improvement inventions and double patenting. In its decision *In re Braat*, 19 USPQ2d 1289, 937 F2d 589 (Fed. Cir. 1991), the court indicated:

[A]n applicant (or applicants), who files applications for basic and improvement patents should not be penalized by the rate of progress of the applications through the PTO, a matter over which the applicant does not have complete control. ... In this situation, the order of issuance is, in effect, ignored, and the relevant determination becomes whether the improvement is patentably distinct from the generic invention.

19 USPQ2d 1292

The Federal Circuit was hardly breaking any new ground in this analysis, but it did give a new face to the venerable *Stanley* doctrine, taking what had been an “order of invention” consideration – whether the improvement patent issuing first was in fact an invention made later – and naming it a right to have a “two-way test” for non-obviousness. The “two-way” test meant that, in addition to the *Vogel* “safe harbor” that avoided any consideration of relative inventions dates, the test for whether two patented

inventions were “double patenting” could be made by determining whether the first-issued patent was a non-obvious variation of the second-issued patent.<sup>6</sup>

One could engage in a number of analytical quibbles over this “two-way” test. The most obvious quibble is that the “two-way” test should be applied to test the first-issued patent for double patenting, not the second issued patent. The “second way” test for obviousness is really a test of whether the first-issued patent should have validly issued because a later-made improvement is no more than an obvious variation of a later-issued patent to a basic discovery. The prior issuance of the improvement patent, *once the basic patent issued*, may produce “double patenting.” If so, the first-issued patent is the one that should be deemed unenforceable absent continuing common ownership with the second-issued patent, not vice versa.

Thus, the “two-way” test perverts the prior law of *Ohio Brass*, *Stanley*, *Borah* and other decisions that focus on the unfairness of calling a second-issued patent “double patenting” when the patent is for the an original or basic discovery that was later the subject of an improvement, but the improvement earlier patented. Testing the improvement for “non-obviousness” should not be necessary to decide whether the basic patent is “double patenting.”

Under the facts of *Braat*, the two inventions that were made were characterized by the Federal Circuit as separate subcombinations, *e.g.*, Braat claiming an earlier-filed B-C subcombination and a second inventor, Dil, claiming a later-filed A-B subcombination. Having the advantage of the discovery that both A and C would work with B, Dil also invented a third combination A-B-C. When the later-filed Dil patent issued claiming A-B-C and A-B, it self-evidently rendered obvious a dominating claim to the subcombination B-C. However, one could argue that a patent for B-C would not necessarily have rendered obvious either the separate invention of A-B or the more specific embodiment A-B-C.

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<sup>6</sup> As if to reinforce its equitable point on the delays in the U.S. Patent and Trademark Office not being chargeable to the applicant in producing an extension of the “monopoly” created by two patents expiring at different times, the Federal Circuit cited a century of precedent allegedly supporting a “two-way” test:

Although *Borah* is the latest authority of which we are aware which stands for this proposition, it is certainly not the only one. See also *In re Stanley*, 214 F.2d 151, 102 USPQ 234 (CCPA 1954); *In re Calvert*, 97 F.2d 638, 38 USPQ 184 (CCPA 1938); *Thomson-Houston Elec. Co. v. Elmira & Horseheads Ry. Co.*, 71 F. 396 (2d Cir.), *cert. denied* 163 U.S. 685 (1896); *Thomson-Houston Elec. Co. v. Ohio Brass Co.*, 80 F. 712 (6th Cir. 1897). In fact, *Stanley* is more relevant to the present case than is *Borah*, since *Stanley* deals specifically with commonly-assigned inventions of two co-workers. *Borah* approved *Stanley* notwithstanding it extended protection for four years. See *Borah*, 354 F.2d at 1017, 148 USPQ at 220.

See footnote 3 at 19 USPQ2d 1292.

The Federal Circuit could not decide this appeal as it might have decided pre-1984 double patenting issues of this type. Under the effective date provisions of the Patent Law Amendments Act of 1984, the 1984 Act was given essentially complete retroactive effect – “the amendments [of the 1984 Act] shall apply to all patents granted before, on, or after the date of enactment and to all applications pending on or filed after the date of enactment.” Dil and Braat now stood in the same posture for prior art purposes as though Braat had made both inventions – neither patented invention could stand as prior art to the other. Moreover, the U.S. Patent and Trademark Office could no longer allow the 1967 O.G. Notice to apply to these pre-1984 patent filings; Braat’s claim to B-C could be double patenting over the Dil patent in exactly the same manner as though Braat had previously and separately sought both patents.

However, when the inventorship difference is thusly eliminated, the Braat case distills immediately to the facts of *In re Borah* in the sense that a patent is first sought in a pair of 1978 applications claiming B-C, followed by a 1979 patent application (issued in 1980 as a patent) for A-B and A-B-C. By clearly limiting the 1979 patent filing to the A-B-related subject matter, the dominating claim to B-C would escape double patenting.

Thus, in 1991 in *Braat* was born the novel notion that some double patenting issues could be surmounted only if they qualified for a “two-way” test. Worse, it was born with the policy dicta that this new “two-way” privilege arose only because a patent applicant could not control the rate of prosecution of two commonly owned applications through the U.S. Patent and Trademark Office.

**THE BRAAT PROGENY – A “TWO-WAY” TEST ONLY WHERE FILING  
AND PROSECUTION JUSTIFY THE PRIVILEGE?**

The nomenclature in *Braat* concerning “one-way” versus “two way” double patenting eventually came to swamp the doctrine as it had developed over five decades of C.C.P.A. and Federal Circuit patent law. This tidal wave of confusion arose from a series of Federal Circuit decisions:

*In re Emert*, 44 USPQ2d 1149, 124 F3d 1458 (Fed. Cir. 1997)

The facts of Emert appear unremarkable. In July 1985, Emert sought a first patent (its ’624 patent), which issued in September 1989 – as a continuation-in-part of an application filed in September 1987. The claims of the issued patent were based upon the September 1987 disclosure. The claims related to the combination of A and B. The pivotal aspect of Emert’s invention claimed invention revolved around a substance “B”:

In shorthand, the ’624 patent claims: “An oil soluble dispersant mixture useful as an additive comprising: [A and B].” Emert added component B to his disclosure as part of a continuation-in-part application filed on September 9, 1987.

44 USPQ2d 1151

A second series of patent filings began in October 1986 and, following requests for an extension of time and the filing of two continuing applications and a response to a restriction requirement, first responded substantively to a rejection on the merits of the application in February 1990. After the declaration and termination of an interference on the application (its '887 application), the application reached the Federal Circuit on a double patenting issue in 1997 – eight years after the first patent had issued. The court characterized the invention in the patent filing from July as follow:

In shorthand, the '887 application claims: “An oil soluble dispersant useful as an oil additive comprising the product of a reaction mixture comprising: [B<sub>1</sub>].” As to the relation between B and B<sub>1</sub>, the dispersant claimed in the '624 patent [B] has a molecular weight of 700-1150 compared with 700-1200 in B<sub>1</sub> of the '887 application. The '624 patent's B also has a functionality ratio of 1.2-2.0 compared with 1.3-1.8 in B<sub>1</sub> of the '887 application. Emert claims that these very slight differences minimize interactions with other oil additives.

44 USPQ2d 1151

In sum and substance, Emert sought two separate patents related to the discovery of component B, one patent filing in October 1986 on one variant of “B” and a second patent filing in September 1987 – nearly one year later – on the combination of a second variant of “B” in combination with “A.” These post-1984 Act patent filings were commonly owned and named two common inventors.

The *Schneller* doctrine was clearly implicated by Emert's conduct. Instead of putting all the component “B” new matter into a single continuing application so that, absent restriction, all the “B”-related claims might have found their way into a single patent, Emert's assignee divided the “B”-related disclosure into two separate patent filings. If effect, Emert sought to patent aspects of a composition containing “B” variants in separate patents, depriving the U.S. Patent and Trademark Office of the ability to assess their independent and distinct nature.

More importantly, the *Stanley* doctrine is nowhere implicated here. In *Stanley* and *Borah*, the original patent filing issued after a later-filed improvement patent had issued. The original patent filing of Emert actually was the first patent issued.

Most importantly, the *Vogel* doctrine could not be invoked to avoid double patenting. Emert was not prepared to demonstrate that the claims in a later-issued patent would be a non-obvious variation of each of the claims in the earlier-issued patent.

Thus, there was no conceivable basis upon which Emert could readily take advantage any of the traditional means of avoiding a conclusion of “double patenting” as announced by the courts over the preceding 100 years. Indeed, its *Schneller*-like conduct

suggested that its actions were unavoidably double patenting if it could not sail to the *Vogel* safe harbor.

What Emert elected to do is make a contention nonetheless that a “two-way” test should apply, under the “two-way” linguistic formulation announced in *Braat*. Emert’s specific contention appeared to be that the U.S. Patent and Trademark Office had erred because it declined “to use a two-way obviousness-type double patenting analysis ... finding that his delays slowed the prosecution of his application and caused the ’624 patent to issue ahead of the ’887 application.”

The Federal Circuit proceeded to make what theretofore would have been a largely irrelevant set of determinations as to the relative rate of prosecution during the critical period of “copendency” of the two patent filings:

In the instant case, Emert had significant control over the rate of prosecution of the application. The ’887 application was filed on October 16, 1986, and initially rejected on July 21, 1987. Emert’s subsequent actions had a direct effect on the pace of prosecution. First, Emert received numerous time extensions in various filings. More importantly, after the obviousness rejection in July 1987, Emert waited six months and twice filed a substantially similar continuation application. *See Goodman*, 11 F.3d at 1053 (noting that patentee’s election to file a continuation in lieu of seeking an immediate appeal was evidence of patentee’s control over the pace of prosecution). Emert did not make a substantive response to the PTO for more than two years after the original rejection. In the meantime, the ’624 patent issued. During the critical three-year copendent period of the ’887 application and the application for the ’624 patent, Emert was responsible for the delays in prosecution.

44 USPQ2d 1152

From this orchestration finding of fact, the Federal Circuit *held* the double patenting analysis was a “one-way” analysis: “Because Emert orchestrated the rate of prosecution for the two applications, this court applies a one-way analysis. Generally, the court must determine whether the claims in the application define an obvious variation of the claim in the earlier issued patent.”

By overlooking a simple *Schneller* analysis, *i.e.*, the fact that the applicant effectively elected to seek two patents instead of one made the existence of independent and distinct inventions the operable standard for double patenting, the Federal Circuit in Emert launched a novel inquiry – effectively precedent that would have left only fraud or laches in procuring the second-issued patent to allow the application of the *Stanley* doctrine. Most importantly, by failing to simply hold this was not a situation in which the

*Stanley* doctrine could apply, the injection of “rate of prosecution” into the *Stanley*-prong of the two-way test made a holding out of what should have been simply more dicta.

*In re Berg*, 46 USPQ2d 1226, 140 F.3d 1428 (Fed. Cir. 1998)

The claims sought by Berg had been divided between two patent applications filed on the same day. The claims of both applications were simultaneously allowed, except for the issue of double patenting. The patent examiner raised this issue in the Berg application he had picked up second for examination, after allowing the earlier-examined of the two applications.

The facts of *Berg* might have led the U.S. Patent and Trademark Office and the Federal Circuit to immediately and decisively apply the rule in *Schneller* that states voluntarily divided inventions must be independent and distinct to escape double patenting, unless the “safe harbor” of *Vogel* applies – the later-issuing patent will not claim any obvious variation of any claim in the earlier-issuing patent. The *Schneller*-like character of this appeal could not have been clearer. Had it done so, and nothing more, the *Berg* appeal would have been as unremarkable as *Schneller* itself.

The Federal Circuit, however, decided it needed to address the scope of the “two-way” test and its application in an appallingly inaccurate characterization of the origin and scope of the test:

Since *Braat*, many patent applicants facing an obviousness-type double patenting rejection under the one-way test have argued that they actually are entitled to the two-way test. The two-way test, however, is a narrow exception to the general rule of the one-way test. Indeed, the primary basis for the *Braat* decision – different inventive entities – was removed by the Patent Law Amendments Act of 1984 (the “1984 Act”). Nevertheless, the notion survives that in certain unusual circumstances, the applicant should receive the benefit of the two-way test. The question then is: when?

46 USPQ2d 1229

Although the Federal Circuit was encouraged to decide this appeal based on the allegation that *Berg* controlled the rate of prosecution, the court affirmatively declined. Instead, it effectively noted that the *Schneller*-like ability to file the claims in a single application – and, thus, the voluntary division into separate patent filings – was fatal to its claim that it somehow should be entitled to the *Stanley/Borah* doctrine:

[W]e base our affirmance on the second stated rationale of the Board: because Berg could have filed the claims of its separate applications in a single application, and it simply chose to file two applications despite nearly

identical disclosures, Berg is not entitled to the two-way test.

46 USPQ2d 1230

The court's opinion, however, later amplified the relationship between taking *reasonable steps* to file patent claims together so that the *statutory provisions* of 35 U.S.C. §121 guide the multiplicity of patents:

If a potential applicant is unsure whether it has more than one patentably distinct set of claims, the PTO advises that it file all of the claims as one application. Then, as examination proceeds, if the PTO determines that more than one distinct invention was claimed in a single application, 35 U.S.C. Section 121 authorizes the Commissioner to restrict the claims in the application to a single invention. See Manual of Patent Examining Procedure, 6th ed., rev. 1, Section 806 ("MPEP") (where inventions are independent, restriction to one thereof is ordinarily proper; where inventions are related as disclosed but are distinct as claimed, restriction may be proper). If the claims are so restricted, one or more divisional applications can then be filed containing the claims that were the subject of restriction. When such a divisional application is filed, the PTO is prohibited from using the claims of the patent issuing on the application that prompted the restriction requirement as a reference against the claims of any divisional application. See 35 U.S.C. Section 121; see also MPEP Section 804.01. Hence, by filing all of its related claims in one application, such an applicant is protected from an obviousness-type double patenting rejection if the PTO later determines the applicant has submitted claims to more than one patentable invention.

46 USPQ2d 1232

The *Berg* appeal not only again confirmed the use of the analytical nomenclature of *Braat*, but added to the dicta surrounding the nomenclature. Now, in addition to "rate of prosecution" was the new presumption that the 1984 Patent Law Amendments Act would largely eliminate the need for a two-way test. — *i.e.*, it represented a rarely needed exception given the nature and number of related inventions that could now be piled together in one patent application. This observation, had it not been mere dicta, would have overruled *Borah*. As noted above, the C.C.P.A. expressly rejected the PTO argument that the ability to capture both patented inventions in a continuation-in-part application precluded the application of the *Stanley*-prong of the "two-way" test.



In any event the stage had now been set for the creation of a new era of double patenting law – one that would ask whether constraints on “two way” as interpreted by *Braat, Emert, and Berg* would permit the vitality of *Stanley* to survive the end of the 20<sup>th</sup> century.

***Double Patenting in the 21<sup>st</sup> Century: The Aftermath of Lilly v. Barr***

The double patenting holding in *Lilly v. Barr* is like no other – none from the 19<sup>th</sup> and none from the 20<sup>th</sup> centuries. It concerned two Lilly patents that for the prior two centuries would have been entirely free from any double patenting inquiry.

The first Lilly patent issued was a “species patent,” relating to a specific, non-obvious use. It issued to a Lilly inventor Stark on May 20, 1986. It claimed treating anxiety in humans by administration of an effective amount of the active ingredient in Lilly’s Prozac (fluoxetine hydrochloride). That improvement invention was made and patent for it sought in 1983.

The second Lilly patent issued was a “genus patent.” It issued to a Lilly inventor Molloy in December 1986 – but traced its ancestry back to an original patent filing in 1974 – some twelve years earlier. It claimed inhibiting serotonin uptake in animals by administration of the same effective amount of the same active ingredient. It represented the seminal discovery of Prozac’s mechanism of action.

Thus, the relevant facts were these: the 1974 basic invention was eventually patented, but only after the patent had issued on a much later-made improvement invention had issued. Pure and simple, these two inventions did not amount to double patenting under the *Stanley* criteria. The same analysis applied under *Ohio Brass*, at least in the absence of fraud or laches by Lilly during the 12 years it took to gain the patent on Lilly’s generic discovery of serotonin uptake inhibition by Lilly. There was not even the issue of whether *Borah* applied in the sense that Lilly need not have sought to patent these inventions together. Since the Stark invention was made long after the Molloy invention had become prior art under 35 U.S.C. §102(a), (b), and (e), there was no basis for patenting the two inventions together. Indeed, since the beginning of time, this prior art relationship simply *precluded* the possibility of judge-made “double patenting” since the patent statute would be the referee for the question of patentable distinctness.

Lilly had contended that double patenting could not lie in any situation where the patent statute alone assured that the two inventions would be patentably distinct. In other words, double patenting stepped in – as the U.S. Patent and Trademark Office had indicated in its 1967 O.G. Notice – only when neither invention was prior art to the other. Only in this circumstance could a question arise as to whether two inventions had been patented for the same or for distinct inventions. Indeed, Lilly noted, the application of double patenting principles would lead to the patently absurd result that two independently valid patents could issue to anyone except for a common assignee.

The Federal Circuit seemed entirely unaware that its holding fell outside all heretofore recognized norms constraining the doctrine of double patenting. It did so by claiming to follow the holdings of the Federal Circuit after *Braat*, namely assessing whether a “one way” or a “two way” test of obviousness was applicable. This entire issue, however, merited only a footnote:

A two-way double patenting test does not apply in this case. The two-way test is only appropriate in the unusual circumstance where, *inter alia*, the United States Patent and Trademark Office (“PTO”) is “solely responsible for the delay in causing the second-filed application to issue prior to the first.” (emphasis added). *In re Berg*, 140 F.3d at 1437, 46 USPQ2d at 1233 (Fed. Cir. 1998); see also *In re Goodman*, 11 F.3d 1046, 1053, 29 USPQ2d 2010, 2016 (Fed. Cir. 1993) (holding that PTO actions did not dictate the rate of prosecution when Goodman accepted early issuance of species claims and filed a continuation application to prosecute genus claims). Such circumstances are not present in this case, because the PTO was not solely responsible for the delay. ... [A]n expert hired on behalf of Lilly in the matters of PTO and corporate intellectual property practice, in discussing claim 7 of the ‘549 patent, stated: “[I]t is true that the claim could have been presented earlier...” This statement indicates that the delay was not solely caused by the PTO.

58 USPQ2d 1878

In other words, the “rate of prosecution” issue would now *preclude* application of a “two-way test” in all but the most narrow of circumstances. The entire line of cases from *Ohio Brass* onwards that looked to the relative dates of invention to invoke what the *Braat* court called the “two-way test” would now be ignored.

Most shocking, however, was that double patenting would now infect two patents even if the two patented inventions were patentably distinct because the non-obviousness test operated, *i.e.*, one of the two patented inventions was prior art to the other. Thus, for these types of inventions a new “double non-obviousness” requirement was to be imposed.

The future of double patenting based upon the *Lilly* holding appears to embrace the following:

- The analysis for double patenting must be applied to every pair of commonly owned patents. The notion that one of the two patented inventions being prior art

to the other invention obviated any possibility for double patenting was entirely dismissed.<sup>7</sup>

- The ancient constraint on double patenting as applied to a later-issuing basic invention after an earlier-issuing improvement patent issued has now morphed into a question of whether a “two-way” test can be invoked.
- The “entitlement” to the “two-way” test is now limited to the situation where the PTO itself is not “solely responsible” for the delay in issuing the second patent. Presenting a claim later than the filing of the original application date – even in the absence of any direct evidence that the issuance of the patent was actually delayed – can suffice to demonstrate that the PTO did not bear sole responsibility.

Double patenting, all but given up for dead after the Uruguay Round Agreements Act, has come back to a life of its own – with a vengeance not known for all 212 years of the U.S. patent system.

### ***Implications of the Lilly Holding for Patent Procurement***

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<sup>7</sup> The panel deciding the Lilly appeal was clearly aware of the unprecedented ground into which it had walked. The posture of the panel decision was as a replacement for an earlier panel decision deciding a different issue of double patenting that the *en banc* Federal Circuit had vacated. Judge Newman, however, dissented from the denial of the Federal Circuit to take the case *en banc* and to permit the second panel decision to stand:

The judgemade law of obviousness-type double patenting was developed to cover the situation where patents are not citable as a reference against each other and therefore can not be examined for compliance with the rule that only one patent is available per invention. Double patenting thus is applied when neither patent is prior art against the other, usually because they have a common priority date. See *General Foods Corp. v. Studiengesellschaft Kohle mbH*, 972 F.2d 1272, 1278-81, 23 USPQ2d 1839, 1843-46 (Fed. Cir. 1992) (summarizing the criteria for obviousness-type double patenting). As the court explained in *In re Boylan*, 392 F.2d 1017, 1018 n.1, 157 USPQ 370, 371 n.1 (CCPA 1968), “it must always be carefully observed that the appellant’s patent is not ‘prior art’ under either section 102 or section 103 of the 1952 Patent Act.”

These fundamental requirements for application of the law of double patenting are not met by the ‘549 and Stark patents. The Stark patent was filed nine years after the effective filing date of the ‘549 patent; there is no formal relationship between them; the ‘549 disclosure was a cited reference against Stark; and they have different inventorships. The panel ignores these routine criteria and the effect they have on a double patenting analysis. Whatever effect the ‘549 and Stark patents may have on each other, it is not “double patenting.”

58 USPQ2d 1866

Like much in life, the implications of the *Lilly* holding have both a “good news” and a “bad news” component. To afford the needed perspective, the good news is the appropriate starting point. *Very few patent owners will ever face loss of substantive rights on account of the Lilly holding.*

What makes the good news so apparently good? As a general rule during patent procurement, the order of invention becomes the order of filing. Thereafter, the order of filing translates into the order of issuance of the patent. Hence, patents filed early and issued late, although potentially a source of double patenting, do not require truncation of the patent term for the second-to-issue patent. The exception, of course, is where the patent term of the late-to-issue patent is awarded an extension of its term based upon administrative delays in the PTO. Thus, the new *Lilly*-type double patenting should not typically result in any timewise loss of patent protection.

The exceptions to this general rule do, however, produce one of the many bizarre anomalies from the *Lilly* decision. Congress provided in 1994 with the passage of the URAA and again in 1999 with the passage of the American Inventors Protection Act that the 20-year term afford some additional “wiggle room” to protect inventors who experience long delays in the PTO. In some situations a basic patent can qualify for patent term extension – day for day – so that a 17-year term from patent grant could be realized for a diligent patent applicant. The Federal Circuit in *Lilly* effectively said “never mind.”

Even if a basic invention patented late and would be entitled to a longer (extended) patent term, it will be subject to a terminal disclaimer that may cut the extended term back to that of a non-obvious improvement. The Federal Circuit has in effect repealed the AIPA where a non-obvious improvement invention, although filed later, issues and expires earlier than a basic patent. In short, to protect the congressionally sanctioned patent term on a basic invention, the assignee must forego the risk of patenting improvements – or must assure that the improvement patents are not issued until after the issuance of the basic patent.

So the good news is indeed good, albeit impossible to reconcile with the congressional intent in extending the term of the very type of “basic patent” that the Federal Circuit invalidated in its *Lilly* decision.

The other nuance to the good news, of course, is the requirement for a terminal disclaimer to be filed in the later-issued patent, even if there is no extra term to disclaim. The disclaimer will be required to cement common ownership of the two patents. While this is normally not a burdensome requirement, it does present the difficulty of preventing alienation of patents for any impacted improvement inventions without either forfeiting title to – or forfeiting the enforceability of – the patent for the basic invention.

An example will illustrate the difficulties an inventor might face. Inventor X makes a basic discovery of a new epoxy resin. A series of improvement patents are then filed for various specific resin formulas for diverse applications – automobile body paint,

consumer adhesives packages, and injection molding plastics. If the basic patents on the new epoxy resin require a long prosecution history in order to secure the claims needed to reflect the broad scope of the basic invention, the broad claims will dominate the earlier-issued patents on the specific improvements. As such, the later-issued basic patent will be double patenting of the later-made improvements.

The rub comes in attempting to divest one or more of the businesses – automotive paints, consumer adhesives or injection moldings. While normally title to the narrow, improvements patents would go with the sale of each business, the array of patents will be all tied together. Theoretically at least, one can structure a “patent holding company” to hold title to all the patents lassoed by the terminal disclaimer. Instead of parting with title to any patent, the holding company can hold title and administer license rights.

This scenario, of course, works perfectly where all the double patenting issues were identified during the course of prosecution before the PTO. However, the frailties of the patent examination process suggest that this will not invariably be the case. This gives rise to another potential difficulty – the missed double patenting rejection.

Continuing the epoxy resin example, suppose that the consumer adhesive business is sold – and the intellectual property is sold with it. If a double patenting rejection is missed for one of the many patents vended to the purchaser, the later-issued basic patent is rendered unenforceable. By itself, of course, this enforceability need not be permanent. Obviously, if title could be recovered, and a terminal disclaimer filed for the basic patent, then the “no harm, no foul” rule should come into play. The basic patent, properly disclaimed, ought to be entirely enforceable.

Another aspect, however, of the *Lilly* decision comes into play. If the patent is vended to another, the new owner must act to keep the patent in force. If even a trivial improvement patent is not maintained in force, *i.e.*, a maintenance fee is not worth paying, then the basic patent is permanently unenforceable. The peculiar nature of this holding applies because of a novel forfeiture holding of the Federal Circuit. Once any improvement patent lapses, the basic patent is invalid. In its footnote 5, the Federal Circuit clarified the basis for this type of invalidity:

A patent owner cannot avoid double patenting by disclaiming the earlier[-issued] patent. Further, because Lilly disclaimed the [earlier-issued] patent, it cannot now terminally disclaim the [later-issuing] patent to expire at the time the [earlier-issued] patent would have expired had it not been disclaimed. That is, the fact that the [earlier-issued] patent has been disclaimed is of no help to Lilly, as double patenting precludes claim 7 of the [later-issuing] patent from extending beyond the termination date of the [earlier-issuing] patent, whether that termination date is at the end of its normal term or, as in this case, is the date it is terminated via disclaimer.

58 USPQ2d at 1878.

So much for the “good news.” Of greatest importance, as can be seen from the examples, is to assure that double patenting issues are identified early – during examination – so a terminal disclaimer can be filed and made effective early. Once this has been done, it is relatively simple to manage the commonly owned patents that must remain bundled.

Also, the “footnote 5” forfeiture provision cannot be invoked. As irrational as footnote 5 is applied to a terminal disclaimer filed after an earlier-issued patent has been disclaimed or allowed to lapse, it would be even more absurd to require patent claims to be maintained in force in order to keep the claims of a later-issuing patent enforceable.

Now for the *bad news*. Until the order of issuance of a pair of commonly owned patents is determined, a *provisional* issue of double patenting exists. If the “prior art” patent issues first, the provisional issue evaporates. If the “prior art” patent’s issuance was delayed until after the issuance of a patent for a later-invented improvement, then the provisional issue of double patenting matures into full-blown double patenting – assuming the later-issuing patent that will contain any claim that is a mere obvious variation of any claim in the earlier-issued patent.

According to the Manual of Patent Examining Procedure, patent examination cannot be completed where patent examiners cannot fully consider all relevant issues of double patenting – even the provisional ones.<sup>8</sup> The implications for the applicant’s “duty

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<sup>8</sup> MPEP 804, 8<sup>th</sup> Edition (Aug. 2001), “Double Patenting,” Para. I.B. “*Between Copending Applications—Provisional Rejections*,” ([http://www.uspto.gov/web/offices/pac/mpep/mpep\\_e8\\_0800.pdf](http://www.uspto.gov/web/offices/pac/mpep/mpep_e8_0800.pdf)) provides the following:

Occasionally, the examiner becomes aware of two copending applications filed by the same inventive entity, or by different inventive entities having a common inventor, and/or by a common assignee that would raise an issue of double patenting if one of the applications became a patent. Where this issue can be addressed without violating the confidential status of applications (35 U.S.C. §122), the courts have sanctioned the practice of making applicant aware of the potential double patenting problem if one of the applications became a patent by permitting the examiner to make a “provisional” rejection on the ground of double patenting. *In re Mott*, 539 F.2d 1291, 190 USPQ 536 (CCPA 1976); *In re Wetterau*, 356 F.2d 556, 148 USPQ 499 (CCPA 1966). The merits of such a provisional rejection can be addressed by both the applicant and the examiner without waiting for the first patent to issue.

The “provisional” double patenting rejection should continue to be made by the examiner in each application as long as there are conflicting claims in more than one application unless that “provisional” double patenting rejection is the only rejection remaining in one of the applications. If the “provisional” double patenting rejection in one application is the only rejection remaining in that application, the examiner should then withdraw that rejection and permit the application to issue as a patent, thereby converting the

of candor and good faith” are entirely straightforward. If a copending application of the same assignee “establishes, by itself or in combination with other information, a prima facie case of unpatentability” for any claim in any other copending application based upon the potential for obviousness-type double patenting, then the copending application must be disclosed.

What technique is needed to assure that provisional double patenting issues are not concealed from a patent examiner? One potential technique is the use a reverse IDS process – file “information disclosure statements” in reverse. When an IDS in a later-filed patent application needs to cite any prior-filed application as prior art, it is manifest that the prior art application should have a reverse IDS filed in which the later-filed improvement application must be disclosed.

Indeed, had the *Lilly* decision been established law at the time the invalidated Lilly patent was being prosecuted there were *multiple* patents – perhaps dozens that represented *provisional double patenting issues*. Since Lilly failed to disclose *any* of its later-made, later-filed improvement patents, it could have been open to a charge of inequitable conduct.

### ***The Future of Lilly-Type Double Patenting***

Courts are today taking the facts of the *Lilly* decision to find double patenting where basic patents issue after later-invented improvement patents have issued. It appears that this Lilly-type double patenting is now U.S. patent law.

Yet to be seen is whether the substantial number of issued patents potentially impacted by Lilly-type double patenting will in fact bear the additional burden of unenforceability for inequitable conduct. Clearly, with the Federal Circuit now having defined the new scope of double patenting and the PTO defining the examiner’s duty to provisionally reject for double patenting, “inequitable conduct” allegations for non-disclosure cannot be far behind.

One hope for the future is that Congress will intervene. Given the marginal role this once-obscure doctrine should play in the patent system, Congress may represent the only hope that an errant interpretation of this ancient concept can be reined back of its

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“provisional” double patenting rejection in the other application(s) into a double patenting rejection at the time the one application issues as a patent.

If the “provisional” double patenting rejections in both applications are the only rejections remaining in those applications, the examiner should then withdraw that rejection in one of the applications (e.g., the application with the earlier filing date) and permit the application to issue as a patent. The examiner should maintain the double patenting rejection in the other application as a “provisional” double patenting rejection which will be converted into a double patenting rejection when the one application issues as a patent.

former role – limited to patented inventions that cannot be tested for patentable distinctness under the non-obviousness requirement.

***Conclusion***

Double patenting came within a hair's breadth of being little known or long remembered by the post-URAA generation of patent professionals. Unfortunately, the Federal Circuit in the *Lilly* decision has now made the doctrine a matter that must be understood and diligently managed during patent procurement– at least until the courts or the Congress intervenes to again confine the doctrine to its narrow roots.





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### **A "REASONABLY COULD HAVE RAISED" ESTOPPEL IN LITIGATION FOLLOWING POST-GRANT REVIEW WILL PREVENT THE ENVISIONED BENEFITS OF THE NEW PROCEDURE FROM BEING ACHIEVED**

#### ***PGR Was Designed to Serve as a Speedy and Fair Alternative to District Court Litigation***

In its 2004 report, the National Research Council of the National Academies of Sciences (NAS Report) recommended that Congress adopt a "post-grant review" (PGR) proceeding, noting that the "speed, cost, and design details of this proceeding should make it an attractive alternative to litigation to determine patent validity and be fair to all parties."

Congress responded by creating PGR – an entirely new procedure for third parties to challenge issued patents, but only during a limited time period after their issuance. These proceedings will take place in the U.S. Patent and Trademark Office (PTO) before administrative patent judges (APJs). They are contained in Section 6 of the Leahy-Smith America Invents Act (AIA).

Congress faithfully implemented the NAS recommendation for an effective, early, quality check of U.S. patents. It created an "all issues" procedure, one that allows any person to challenge an issued patent in the PTO during the first nine months following its grant on any grounds on which the patent could be challenged in federal district court, *i.e.*, all of the grounds on which an accused infringer could assert a patent is invalid under paragraphs (2) or (3) of section 282(b) of title 35. Congress also replaced pre-AIA "inter partes reexamination" with a new and far more efficient and effective "Inter Partes Review" (IPR) procedure. Congress envisioned that PGR and IPR would operate in a sequential, but complementary, fashion.

The new IPR procedure allows a person to challenge a patent at any time after the first nine months following its grant (or completion of any PGR proceeding involving a patent that is still pending nine months after issuance). Thus, the opportunity to seek an IPR procedure arises only after the opportunity to seek a PGR no longer exists.

Reflecting the NAS recommendation to make the PGR procedure an attractive alternative to litigation and one that would be fair to all parties involved, the PGR and IPR procedures include a number of common safeguards protecting the interests of both patent owners and patent challengers such as:

- heightened thresholds to protect patentees against specious challenges,
- using technically and legally trained APJs to ensure quality and expedite proceedings,
- one-year deadlines from initiation to final agency decision,

- limits on discovery to ensure the one-year deadline can be met, and
- estoppels against subsequent PTO proceedings and civil actions and ITC proceedings.

The PGR and IPR estoppel provisions preclude challengers from re-raising in subsequent PTO and court proceedings certain issues that were, or might have been, raised in an earlier PGR or an IPR proceeding. They are intended to protect a patent owner from repeated challenges to the validity of a patent from the same challenger. At the same time, they were carefully calibrated so as not to unduly deter a patent challenger from using PGR and IPR. Thus, particularly for PGR – given the breath of the patent validity challenges that can be raised – it is of vital importance that the judicial estoppel, *i.e.*, the limitation on issues that a PGR challenger is foreclosed from raising if later sued for patent infringement, be sufficiently narrow so as not to dissuade someone from challenging a patent in a PGR, particularly a patent that on its face appears more likely than not to be invalid.

***An All-Encompassing Judicial Estoppel Provision Would Undermine the Goal of PGRs***

Congress understood that for PGR to serve a useful purpose it would need to be an attractive alternative compared to district court litigation. However, as indicated above, Congress carefully crafted the PGR provisions, and especially the requisite estoppel, to balance the interests of both patent holders and challengers.

For example, there are some necessary limitations in PGR that pose disincentives for a patent challenger to use the procedure. They include limitations on available discovery, a relatively short duration from initiation to decision, and a deliberately high threshold for initiation. While these hurdles might not completely discourage one from challenging a patent in a PGR, the addition of a “reasonably could have raised” estoppel with respect to later civil actions very likely would dissuade challengers from using PGR – to the detriment of the public interest in having the PTO promptly cancel invalid patent claims that had incorrectly issued.

The barring of all patent invalidity defenses in a later patent infringement lawsuit that “reasonably could have been raised” in a PGR, means that a potential patent challenger must consider raising every possible issue that could later be raised as an invalidity defense in court – and, if the PGR is instituted, to be prepared to live with the outcome. A potential PGR challenger always has the option to wait until confronted with a patent infringement lawsuit to decide whether to seek to invalidate a patent in a civil action or by petitioning to initiate an IPR (based on prior patents and printed publications).

Thus, application of a “could have raised” judicial estoppel to PGR would create a powerful disincentive to its use, and, at least with respect to challenges based on prior patents and publications, provide a reverse incentive to use IPRs instead. This reverse incentive would arise because, as noted above, a patent can only be challenged on the basis of patents and publications in an IPR – the other grounds for challenging validity

that are available under section 282(b) in a PGR cannot be raised in an IPR. Accordingly, initiating an IPR would not result in an estoppel of the other defenses that are available under 35 USC 282(b) because a challenger could not reasonably have raised these other defenses.

If a patent issues with invalid claims, everyone will benefit if such claims are promptly challenged in a PGR. After a successful challenge, the patent challenger and others will be able to invest in bringing new products to market with greater certainty that patent infringement litigation will not ensue once the new product reaches the market. The patent owner benefits by knowing, sooner rather than later, that the scope of the patent is limited and can avoid making investments in reliance on a patent that does not merit such reliance. The public benefits by having greater access to products and services through fair and unfettered competition. The result of applying a far-reaching judicial estoppel to PGR means that everyone loses – the public, competitors, and even the patentee – and the benefits that the NAS envisioned will not be achieved.<sup>1</sup>

***The Optimal Judicial Estoppel Provision Would Only Preclude Issues Actually Raised in a PGR from Being Re-litigated in Court or the ITC***

Given the limits imposed on a challenger seeking a PGR and the broad sweep of invalidity issues that could be raised, Congress reached a consensus that the estoppel applicable to PGR should be less stringent than the estoppel applicable to IPR. Thus, with respect to later civil actions and ITC proceedings, the Chairs of both the House and Senate Judiciary Committees introduced bills early in the 112<sup>th</sup> Congress providing that a challenger should only be judicially precluded from asserting that a claim in a patent is invalid on a ground that was actually “raised” during a PGR once the PTO issues a final written decision.

As noted, IPR has a limited range of grounds on which patent validity may be challenged – lack of novelty and/or obviousness on the basis of patents and printed publications. Also, a challenger can wait until sued for patent infringement before seeking to initiate a proceeding, allowing the challenger years to uncover any relevant documentary evidence. Accordingly, Congress determined that the challenger in an IPR should be estopped in later civil actions and ITC proceedings from asserting that a claim in a patent is invalid – not only on the basis of the patents or printed publications that the challenger “raised” in the IPR in asserting invalidity – but also on the basis of any other patents or printed publications that the challenger “reasonably could have raised” in the IPR. This more comprehensive estoppel is both fair to challengers and protects patent owners from harassment by challengers presenting some evidence of invalidity in an IPR and other evidence in a subsequent civil action or ITC proceeding, essentially preventing multiple, serial attacks on a patent from the same party, essentially preventing multiple, serial attacks on a patent from the same party.

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<sup>1</sup> See Testimony of Robert A. Armitage, Hearing of May 16, 2012, Committee on the Judiciary, U.S. House of Representatives (“The provision now in [the AIA] threatens to turn PGR into a dead letter, with an estoppel so draconian in character that it would be highly problematic for a patent challenger to use.”)

Unfortunately, an undetected error was made by the staff charged with making (what were supposed to be merely) technical corrections to the AIA when it was reported by the House Judiciary Committee. Presumably thinking that the estoppels in PGRs and IPRs should be identical and that the absence of the phrase “or reasonably could have raised” in the judicial estoppel of PGR was an oversight, the staff added it. Failure to detect this error before enactment meant that this more sweeping judicial estoppel was made applicable not just to IPR challengers, but to the PGR challengers as well. Unlike the patent reform bill introduced in the Senate and reported out by Senate Judiciary Committee and the patent reform bill introduced in the House and which the House Judiciary intended to report out (and thought it had according to its report on the bill), this broad estoppel now applies to civil actions and ITC proceedings following PGRs. This oversight would be corrected by Section 9(b) of the “Discussion Draft” published by Chairman Goodlatte on May 23, 2013 by deleting the phrase “or reasonably could have raised” from 35 U.S.C. §325(e)(2).

### **Conclusion**

In order to ensure that the PGR system that the PTO currently is implementing does not become an underused artifact of the AIA, and to ensure that PGR will be used as the NAS recommended and Congress intended – as an early check on the quality of recently issued patents – the “reasonably could have raised” estoppel that was inadvertently applied to such proceedings must be deleted as proposed in the “Discussion Draft”.

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## THE COALITION FOR 21ST CENTURY PATENT REFORM

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### "REASONABLY COULD HAVE RAISED" ESTOPPEL

#### A Technical Error That Should Be Corrected

In the patent reform bills reported by the Senate Judiciary in the 111<sup>th</sup> and 112<sup>th</sup> Congresses, the estoppel effect of decisions made in post-grant review (PGR) proceedings in the PTO regarding subsequent validity challenges in district courts and the ITC (judicial estoppel) was limited to grounds that the challenger "raised" in these proceedings. This more limited estoppel was intentionally chosen to encourage the use of PGR to promptly eliminate any invalid patents and correct overly broad patents. The inadvertent inclusion of the more sweeping IPR judicial estoppel into PGR in the Leahy-Smith America Invents Act (AIA) to also cover grounds a challenger "reasonably could have raised" was clearly a technical error made in the House which should be corrected according to the Chairmen of the House<sup>1</sup> and Senate<sup>2</sup> Judiciary Committees after whom the AIA is named. This inadvertent "scriveners error"<sup>3</sup> would be corrected by the deletion of that phrase by Section 9(b) of the Discussion Draft published by Chairman Goodlatte on May 23, 2013.

Joe Matal, then Judiciary Committee Counsel to Senator Jon Kyl, who was intimately involved in the passage of this legislation, had earlier offered the following observation:

"Nothing in the record explains or even mentions this marked shift. This is because the change appears to have been made in error by staff charged with making technical corrections to the bill when it was reported by the House Judiciary Committee. Unfortunately, no one caught the error during the three and a half months between the time when the bill was reported by the committee and when it was signed by the President."<sup>4</sup> (citations omitted)

<sup>1</sup> "Other technical corrections and improvements may arise in the future, for example, the issue surrounding the correction of the post-grant review estoppel provision in the Leahy-Smith AIA. This was the result of an inadvertent scrivener's error, an error that was made by legislative counsel. That technical error has resulted in an estoppel provision with a higher threshold than was intended by either House of Congress." 158 Cong. Rec. H6843 (daily ed. December 18, 2012) (statement of Rep. Smith).

<sup>2</sup> "Regrettably, the legislation passed today does not include one technical correction that would improve the law by restoring Congress's intent for the post-grant estoppel provision of the America Invents Act. Chairman Smith recently described certain language contained in that provision as an "inadvertent scrivener's error." As written, it unintentionally creates a higher threshold of estoppel than was in the legislation that passed the Senate 95-5, or that was intended by the House, according to Chairman Smith's statement. I hope we will soon address this issue so that the law accurately reflects Congress's intent." 158 Cong. Rec. S8517 (daily ed. December 28, 2012) (statement of Sen. Leahy).

<sup>3</sup> *Id.*

<sup>4</sup> Joseph D. Matal, *A Guide to the Legislative History of the America Invents Act: Part II of II*, 21 FED. CIR. B.J. 539, 618 (2012).

The AIA introduces two new post-grant procedures to allow the public to participate in the USPTO in reviewing the validity of patents. These procedures are important to the open, transparent patent system fostered by the AIA. PGR is available during the first nine months after patent grant and allows a third-party to challenge a patent on any ground relating to invalidity of the patent that could be raised in a district court. PGR is primarily a tool to enhance patent quality through early public participation.<sup>5</sup> After the nine-month period (and the conclusion of any PRG proceeding that may be initiated), a third party can challenge a patent in an Inter Partes Review (IPR) proceeding, but only on the basis of a ground that could be raised under section 102 (novelty) or 103 (obviousness) on the basis of prior patents and printed publications. IPR and PGR are primarily alternatives to litigation.

To ensure that these procedures would not subject patent owners to the possibility of harassment, both PGR and IPR included estoppel provisions to prevent repetitive challenges from the same or related challengers. The early comprehensive patent reform bills would have limited the estoppel effect, both in subsequent proceedings in the PTO and in civil actions, to issues actually raised.

The estoppel provisions in H.R. 2795, the first comprehensive patent reform bill in the series of bills that resulted in the AIA, were modeled after the estoppel provisions in a proposal for an opposition procedure nine-months from patent grant proposed by the American Intellectual Property Law Association in 2004. A Senate bill in the same Congress, S. 3818 also limited the estoppel effect to any ground raised. Bills in subsequent Congresses extended this estoppel to proceedings before the International Trade Commission (ITC) under section 337 of the Tariff Act of 1930.

The underlying purposes of PGR and IPR, the differing grounds on which patents may be challenged in these proceedings, and the differing times for seeking them dictate the estoppel that attaches to each. PGRs are available immediately upon patent grant, for all grounds of invalidity available under 35 USC 282(b), to weed-out any invalid or overly broad patents. It is in the public interest that potential challengers not be discouraged from making such challenges early in the life of the patent (after all, the public ultimately bears the cost of any overly broad or invalid patents). Given the timing of PGRs (necessarily limiting the time available to prepare a challenge) and the breadth of the grounds available, a “reasonably could have raised” estoppel may fatally undermine the ability of PRGs to achieve their purpose – prompt challenges to enhance patent quality. Further, it must be recognized that, in seeking a PGR, a challenger must identify itself, thus exposing the challenger as a potential infringer and therefore a prime target for a patentee. If such a challenger faces the risk that it will have to forego the opportunity to later raise a ground of invalidity (that, for example, might be uncovered only following an extensive search of the prior art), perhaps rendering it defenseless in any infringement litigation involving the challenged patent should it survive, the challenger will likely wait and challenge the patent in any later court proceeding. This delay not only imposes an unnecessary

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<sup>5</sup>See statement of Gary Griswold, Past President, American Intellectual Property Law Association, *Hearing on H.R. 2795: Patent Act of 2005*, House Subcommittee on Courts, the Internet, and Intellectual Property, (109th Congress 2005).

burden on the court, but subjects the public to a possibly invalid patent, thus defeating the purpose of PGR to promptly correct or eliminate any overly broad patents. The limitation of the judicial estoppels in PGR to issues raised was widely supported.<sup>6</sup>

It would be inapposite to import IPR's "reasonably could have raised" estoppel for subsequent civil actions into PGR. As explained above, IPR and PGR serve very different purposes. IPR is intended to allow an entity facing litigation or planning to commercialize a product that might infringe a patent to seek to mitigate its exposure and possibly avoid expensive litigation by limiting or eliminating such patent. An IPR is not limited to a 9-month period following patent grant; challengers will generally have the freedom to decide when to seek an IPR and can take the time needed to carefully prepare their case – a task which is simplified by the fact that the grounds in IPR are limited to only novelty and obviousness on the basis of patents and printed publications. Accordingly, while a "reasonably could have raised" estoppel precluding a later court challenge to a patent on the limited grounds available in an IPR may be appropriate, it is clearly not appropriate for PGR, and if imposed on PGRs may all but ensure that PGR will very seldom be used.

We recognize that there was increasing use of inter partes reexamination up until the end of that procedure on Sept. 16, 2012, notwithstanding the fact that it included a sweeping "could have raised" estoppel. The increased use of inter partes reexamination, however, took place once defendants' attorneys discovered how to strategically use the procedure to their advantage in litigation.<sup>7</sup>

#### Relevant History of PGR Estoppel

##### 111<sup>th</sup> Congress – S. 515

In the 111<sup>th</sup> Congress, Senator Leahy introduced S. 515 on 3/3/2009. The PGR estoppel provisions in this bill precluded any subsequent proceeding in the PTO (administrative estoppel) and in the courts and the ITC (judicial estoppel) on the basis of any "any ground that the cancellation petitioner raised during the post-grant review proceeding." S. 515 also modified the judicial estoppel provision in § 315(c) of the existing inter partes reexamination provision (which precluded a third party from later challenging in any civil action the validity of any claim finally determined to be valid on any ground which the third-party had "raised or could have raised") by striking "or could have raised."

The Senate Judiciary Committee began consideration of S. 515 on 3/26/2009 and concluded on 4/2/2009. Among the amendments offered was one by Senator Coburn to remove the PTO from the regular budget process which was tabled by a vote of 10 to 9, with

<sup>6</sup>See statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems, Inc., *Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms*, Senate Judiciary Committee, (109<sup>th</sup> Congress 2006); Anthony Peterman, Director, Patent Counsel, Dell Inc., *Hearing on H.R. 1908: Patent Reform Act of 2007*, House Subcommittee on Courts, the Internet, and Intellectual Property, (110<sup>th</sup> Congress 2007).

<sup>7</sup>According to USPTO statistics, as of June 30, 2006, 26% of inter partes reexaminations were known to be in litigation ([http://www.schmoller.net/documents/inter\\_partes\\_to\\_20060630.pdf](http://www.schmoller.net/documents/inter_partes_to_20060630.pdf)); as of June 30, 2012, 67% of inter partes reexaminations were known to be in litigation ([http://www.uspto.gov/patents/stats/IP\\_quarterly\\_report\\_June\\_30\\_2012.pdf](http://www.uspto.gov/patents/stats/IP_quarterly_report_June_30_2012.pdf)).

both Senators Grassley and Coburn voting against tabling. After considering other amendments, the Committee voted 15 to 4 to report S. 515, Senator Grassley voting in favor and Senator Coburn voting against. The PGR estoppel provisions were not changed – judicial and administrative estoppels remained limited to those grounds actually raised for both post-grant review and for inter partes reexamination.

In the report that accompanied S. 515, Senate Report 111-18, Senators Kyl, Coburn and Feingold offered Minority Views addressing certain features of post grant review procedures. While noting that the bill's elimination of the "could-have-raised estoppel" standard that governed the existing inter partes reexamination would increase the use of the procedure, they did not suggest that it be retained in either the inter partes reexamination procedure or added in the new post-grant procedure. Rather, they suggested increasing the threshold for initiating post-grant reviews, making the inter partes reexamination an oppositional proceeding (rather than an examinational proceeding), restricting use of ex parte reexamination, and authorizing the Director to delay implementation of post-grant review if resources were insufficient. In fact, these changes were made to the patent reform bill, S. 23, introduced in the 112<sup>th</sup> Congress.

#### 112<sup>th</sup> Congress – S.23

S. 23 was introduced on 1/25/2011 by Senator Leahy. Senator Grassley was an original cosponsor. Responding to concerns expressed by some patent owners, S. 23, and its companion bill introduced in the House, H.R. 1249, amended the estoppel provisions of both IPR and PGR with respect to later challenges in the PTO. These bills precluded a person from challenging a claim of a patent in a subsequent PTO proceeding, not only on a ground which that person had previously "raised" in a PGR or IPR proceeding, but also on a ground which that person "reasonably could have raised." This change was made because it was believed that fairness to patentees dictated that multiple attacks on a patent not be available in the PTO to ensure that successive proceedings could not be initiated by a challenger.

With respect to subsequent civil actions and ITC proceedings, however, the PGR estoppel provision was not changed in either S. 23 or H.R. 1249 as introduced. It remained the same as it had been continuously since H.R. 2795 in 2005: – a challenger would only be precluded from asserting invalidity of a claim in a civil action or ITC proceeding on the basis of a ground actually raised in a PGR. These estoppel provisions were not changed when S. 23 was reported by the Senate Judiciary Committee on 2/3/2011 nor were they changed when S. 23 was approved by the Senate on 3/8/2011 by a vote of 95 to 5. Senators Grassley and Coburn both voted for S. 23.

S. 23 was received in the House on 3/9/2011 and held at the desk. H.R. 1249, which incorporated most of S. 23, was introduced on 3/30/2011. The estoppel provisions in H.R. 1249 as introduced were identical to those in S. 23 as it was passed by the Senate.

The House Judiciary Committee held a mark-up session on 4/14/2011. Neither the Manager's Amendment offered by Chairman Smith nor any of the 22 other proposed



amendments (not all of which were actually offered) dealt with the estoppel provisions for PGR and IPR. H.R. 1249 was favorably reported by the Committee by a vote of 32 to 3.

Even though the estoppel provisions were not changed during the Judiciary Committee mark-up, the version of H.R. 1249 that was sent to the House floor did have a change – the judicial estoppel for PGR was amended to apply an estoppel to any “ground that the petitioner raised or reasonably could have raised during a post-grant review.” While the text of H.R. 1249 reprinted in House Report (House Rept.112-98 Part 1) that accompanied the bill to the House floor on 6/1/2011 also contained this error, the report itself, on page 76 states:

“(e) Inter partes and post-grant petitioners are estopped from raising in a subsequent Office proceeding any issue that they raised or reasonably could have raised in the inter partes or post grant review, and inter partes petitioners are also estopped from raising in civil litigation or an ITC proceeding any issue that they raised or could have raised in the inter partes review. Post-grant petitioners are only estopped from raising in civil litigation or ITC proceedings those issues that they actually raised in the post-grant review.” (Emphasis added)

When H.R. 1249 was considered by the House on 6/22/2011, no amendments were offered that would have confirmed or in any manner changed the technical error made in the judicial estoppel provision. The amendments debated and voted upon focused on those provisions that had always received the most attention – first-inventor-to-file and PTO funding. Unfortunately, since the PGR judicial estoppel had not been an issue, this erroneous change in the judicial estoppel provision did not surface as noted above. The House passed H.R. 1249 on 6/23/2011 by a vote of 304 to 117 and forwarded it to the Senate.

H.R. 1249 was received in the Senate on 6/27/2011 and considered by the Senate on 9/8/2011. It was passed by the Senate, without amendment (including one offered by Senator Coburn that would have strengthened the PTO funding authority), on 9/8/2011, by a vote of 89 to 9. Senator Grassley voted in favor; Senator Coburn voted against. The American Inventors Act was signed into law by the President on 9/16/2011.

Against this background, it is clear that no Senator expressed concerns regarding the judicial estoppel in PGR being limited to issues actually raised during a PGR. To the extent that either voted against any aspect of the patent reform bills in either the 111<sup>th</sup> or 112<sup>th</sup> Congresses, it had to do with issues other than their judicial estoppel provisions.

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**Why The PTO's Use of the Broadest Reasonable Interpretation of Patent Claims in Post-Grant and Inter Partes Reviews Is Inappropriate Under the America Invents Act**

*Executive Summary*

Contrary to the recommendations of all three of the major IP bar associations<sup>1</sup> and Section 9(c) of the "Discussion Draft" published by Chairman Goodlatte on May 23, 2013, the United States Patent & Trademark Office (PTO) has decided to construe patent claims challenged in Post-Grant Reviews (PGR) and Inter Partes Reviews (IPR) brought under the America Invents Act (AIA) on the basis of the "broadest reasonable interpretation" (BRI) standard used by the PTO in its initial examination of patent applications, rather than construing them in accordance with their "ordinary and customary meanings," as they are in the courts.

When asked by Senator Franken on June 20, 2012 in a Senate Judiciary Committee hearing on the PTO's implementation of the AIA why the PTO is using BRI instead of harmonizing the standard of review to conform to that used in the courts and ITC, the PTO's witness, Director Kappos, provided three reasons:

- (1) The USPTO "has applied the broadest reasonable interpretation standard literally for decades. For all the time we've been running post grant processes, we've uniformly used this one single standard;"
- (2) The "broadest reasonable interpretation standard is the standard called for by the AIA," because Congress "has directed us to evaluate for patentability not for validity, and an evaluation for patentability is an evaluation that applies the broadest reasonable interpretation standard," and,

<sup>1</sup> All three of the major IP law associations-- the American Bar Association IP Law Section, the American Intellectual Property Law Association and the Intellectual Property Owners Association -- submitted proposed regulations and made subsequent comments to the PTO's proposed regulations for implementing the AIA. These proposed regulations originated from a joint committee of six experts appointed by these associations at the request of the PTO's Director. See "Comments and Proposed Regulations of the Committee Appointed by the ABA IPL, AIPLA and IPO Relating to Post-Grant Review, Inter Partes Review and Transitional Program for Covered Business Method Patents Under the Leahy-Smith America Invents Act" available at [www.uspto.gov/patents/law/comments/x\\_aia-a\\_abaaiplaipo\\_20111118.pdf](http://www.uspto.gov/patents/law/comments/x_aia-a_abaaiplaipo_20111118.pdf); see also "Comments of the Committee Appointed by the ABA-IPL, AIPLA and IPO on the United States Patent and Trademark Office's Proposed Regulations Relating to Post-Grant Review, Inter Partes Review and the Transitional Program for Covered Business Method Patents Under the Leahy-Smith America Invents Act" available at [http://www.uspto.gov/aia\\_implementation/comment-aba-aipla-ipo.pdf](http://www.uspto.gov/aia_implementation/comment-aba-aipla-ipo.pdf).

(3) Use of the BRI standard is in the interest of the public and patent owners because “these post grant processes continue to give patent holders the right to amend their claims, and in that context it’s the mission of the USPTO to look out for the public’s best interest to apply the claims using their broadest reasonable interpretation so that the claims can be viewed clearly in the future giving the applicant then an opportunity to narrow or add precision to their claims as they need to, generating patents that are as clear and defensible as possible.”<sup>2</sup>

This paper considers each of these posited justifications for using BRI, and concludes that:

(1) BRI is not the “one single standard” the PTO has used in post issuance proceedings; to the contrary, in certain reexamination and reissue proceedings, the PTO has long construed the patent claims in accordance with their “ordinary and customary” meanings,” as they are in court;

(2) The AIA does not direct the PTO to use BRI in PGR and IPR proceedings because (a) PGR and IPR are not examination proceedings for determining “patentability,” but are adjudicative proceedings to assess the merits of third party challenges seeking to have previously granted claims declared to be invalid, and (b) provisions of the AIA and its related legislative history are inconsistent with the application of BRI in PGR and IPR;

(3) The use of BRI in PGR and IPR is inappropriate because a major premise for allowing the PTO to use BRI --- that patent owners will not be harmed because there is a sufficient opportunity for patent owners to amend their claims as needed in response to adverse PTO rulings on patentability<sup>3</sup> --- is lacking in PGR and IPR,<sup>4</sup> and

(4) The use of BRI is neither in the public’s nor the patent owner’s best interests because the PTO’s use of BRI would

(a) negate a principal purpose of PGR and IPR, which is to serve as a check to determine whether the PTO is granting patents with claims that will stand up in court,

(b) preclude members of the public from basing their patent challenges on the claim interpretations that are applicable in court, and will lead to many unnecessary PRG and IPR proceedings,

<sup>2</sup> <http://www.judiciary.senate.gov/hearings/hearing.cfm?id=d1d944e8c0b3e2a582633afaeb6ba43a> at minute 94.

<sup>3</sup> But see *Idle Free Systems, Inc. v. Bergstrom Inc.*, \_\_\_ Westlaw \_\_\_, (PTAB 2013) at 5, “...in the absence of special circumstance, a challenged claim can be replaced by only one claim. ...”

(c) force many patent owners to cancel existing claims and propose substitutes, thereby causing forfeitures of patent rights that would not have been required had the PTO construed the original patent claims as they are in court, and

(d) prejudice the public and many accused infringers when the patentabilities of then-more-broadly-construed claims are confirmed in PGR and IPR, resulting in judicial decrees of infringement liability that would not have occurred had the PTO applied judicial claim construction principles.

### *Discussion*

#### **1. BRI is Not the “One Single Standard” that the PTO Uses in Post Issuance Proceedings**

##### **a. Claim Construction In General**

The approach used by practitioners and the courts for interpreting patent claims, and for assessing their validity and infringement, is the subject of well-developed judicial precedent. As explained in the *en banc* decision of the Federal Circuit in *Phillips v. AWH Corp.*, the rules for interpreting a claim are framed by two of the paragraphs of 35 U.S.C. § 112:

The first paragraph of section 112 of the Patent Act, 35 U.S.C. § 112, states that the specification

shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains . . . to make and use the same . . .

The second paragraph of section 112 provides that the specification

shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.<sup>5</sup>

Noting that “[t]he role of the [patent’s] specification in claim construction has been an issue in patent law decisions for nearly two centuries,” *Phillips* affirms that “[i]t is a ‘bedrock principle’ of patent law that ‘the claims of a patent define the invention to which the patentee is entitled the right to exclude.’”<sup>6</sup>

*Phillips* goes on to explain that terms of a claim should generally be given their “ordinary and customary meaning” which is the “meaning that a term would have to one of ordinary skill in the art in question at the time of the invention.”<sup>7</sup> How a person of ordinary skill in the field understands a claim includes what that person would understand from the claim itself, from the

<sup>5</sup> *Phillips v. AWH Corp.*, 415 F.3d 1303, 1316, 75 USPQ2d 1321, 1329 (Fed. Cir. 2005).

<sup>6</sup> *Id.* at 1312.

<sup>7</sup> *Id.*

specification of the patent, and from his reading of the prosecution history of the patent.<sup>8</sup> The prosecution history of the patent, which consists of the complete record of the proceedings before the PTO including the prior art cited during the examination of the patent, is always consulted because it “provides evidence of how the PTO and the inventor understood the patent” and can “often inform the meaning of the claim language by demonstrating how the inventor understood the invention and whether the inventor limited the invention in the course of the prosecution, making the claim scope narrower than it otherwise would be.”<sup>9</sup> In certain circumstances, “extrinsic evidence concerning relevant scientific principles, the meaning of technical terms, the state of the art,” and appropriate expert testimony concerning the meanings of those terms are also utilized in construing the claims.<sup>10</sup>

#### **b. The PTO’s Current Use of BRI in Reexamination Proceedings**

An exception to the general rule of claim construction is the “broadest reasonable interpretation” (BRI) of claims that the PTO uses in its examination of patent application claims prior to their grant. This approach considers only the text of the claims of a patent application and the application’s specification, while ignoring all other intrinsic and extrinsic evidence, at least until it is presented to the PTO by an applicant in connection with the examination. The PTO also uses BRI in most reissue, ex parte and inter partes reexamination proceedings, which the PTO treats in the same way as original applications.<sup>11</sup> As the PTO’s Manual of Patent Examining Procedure (“MPEP”) § 2258 G explains with respect to reexaminations:

Original patent claims will be examined *only* on the basis of prior art patents or printed publications applied under the appropriate parts of 35 U.S.C. 102 and 103. See MPEP § 2217. During reexamination, claims are given the broadest reasonable interpretation consistent with the specification and limitations in the specification are not read into the claims (*In re Yamamoto*, 740 F.2d 1569, 222 USPQ 934 (Fed. Cir. 1984)).

<sup>8</sup> As explained in *Phillips*: “Importantly, the person of ordinary skill in the art is deemed to read the claim term not only in the context of the particular claim in which the disputed term appears, but in the context of the entire patent, including the specification. This court explained that point well in *Multiform Desiccants, Inc. v. Medzam, Ltd.*, 133 F.3d 1473, 1477 (Fed. Cir. 1998): ‘It is the person of ordinary skill in the field of the invention through whose eyes the claims are construed. Such person is deemed to read the words used in the patent documents with an understanding of their meaning in the field, and to have knowledge of any special meaning and usage in the field. The inventor’s words that are used to describe the invention—the inventor’s lexicography—must be understood and interpreted by the court as they would be understood and interpreted by a person in that field of technology. Thus the court starts the decision making process by reviewing the same resources as would that person, viz., the patent specification and the prosecution history.’” See also *Medrad, Inc. v. MRL Devices Corp.*, 401 F.3d 1313, 1319 (Fed. Cir. 2005) (“We cannot look at the ordinary meaning of the term . . . in a vacuum. Rather, we must look at the ordinary meaning in the context of the written description and the prosecution history.”); *I-Formation, Inc. v. Benetton Group SpA*, 401 F.3d 1307, 1310 (Fed. Cir. 2005) (intrinsic record “usually provides the technological and temporal context to enable the court to ascertain the meaning of the claim to one of ordinary skill in the art at the time of the invention”); *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 375 F.3d 1341, 1351 (Fed. Cir. 2004) (proper definition is the “definition that one of ordinary skill in the art could ascertain from the intrinsic evidence in the record”).

<sup>9</sup> *Id.* at 1317; see also *Vitronics*, 90 F.3d at 1582-83.

<sup>10</sup> *Phillips*, 415 F.3d at 1314.

<sup>11</sup> See the Director’s blog post at [www.uspto.gov/blog/director/entry/ensuring\\_quality\\_inter\\_partes\\_and](http://www.uspto.gov/blog/director/entry/ensuring_quality_inter_partes_and).

Using BRI, the claims are interpreted as broadly as reasonably possible considering only the language of the patent's specification, while ignoring any prior prosecution history, expert testimony as to the meaning of the claim terms to those of ordinary skill in the art, or limitations in the specification that may result in a narrowed claim interpretation. As the PTO recently blogged:

Using this [BRI] standard, we give patent claims in front of the USPTO their broadest reasonable interpretation. This approach has for decades been uncontroversial, because it represents good policy and strikes a fair balance. It ensures that the public can clearly understand the outer limits applicants and patentees will attribute to their claims. *And since applicants and patentees have the opportunity to amend their claims when working with the USPTO*, they are able to resolve ambiguities and overbreadth through this interpretive approach, producing clear and defensible patents at the lowest cost point in the system. (Italics added).

As noted in the MPEP, the PTO's authority for using BRI in is based on *In re Yamamoto*, which explains:

The PTO broadly interprets claims during examination of a patent application since the applicant may "amend his claims to obtain protection commensurate with his actual contribution to the art." *In re Prater*, 56 C.C.P.A. 1381, 415 F.2d 1393, 1404-05, 162 U.S.P.Q. (BNA) 541, 550 (1969). This approach serves the public interest by reducing the possibility that claims, finally allowed, will be given broader scope than is justified. Applicants' interests are not impaired since they are not foreclosed from obtaining appropriate coverage for their invention with express claim language. *Id.* at 1405 n.31, 162 U.S.P.Q. at 550 n.31.<sup>12</sup>

*Yamamoto* distinguishes the PTO approach from the claim constructions applied in the federal courts on the basis that in reissue and reexamination proceedings, applicants have the ability to freely amend their claims to arrive at their proper scopes:

An applicant's ability to amend his claims to avoid cited prior art distinguishes proceedings before the PTO from proceedings in federal district courts on issued patents. When an application is pending in the PTO, the *applicant has the ability to correct errors in claim language and adjust the scope of claim protection as needed*. This opportunity is not available in an infringement action in district court. District courts may find it necessary to interpret claims to protect only that which constitutes patentable subject matter to do justice between the parties. *Id.* at 1404, 162 U.S.P.Q. at 550.<sup>13</sup>

In finding that the use of BRI is as appropriate in reexamination proceedings as in reissue proceedings, *Yamamoto* rests its conclusion on the fact that the right to amend the claims is

<sup>12</sup> *In re Yamamoto*, 740 F.2d at 1571.

<sup>13</sup> *Id.* at 1572 (italics added).

guaranteed by 35 USC § 305, which authorizes an inventor to make “*any amendment to his patent and a new claim or claims thereto, in order to distinguish the invention as claimed from the prior art cited . . . or in response to a decision adverse to the patentability of a claim of a patent.*” (italics added).<sup>14</sup>

**c. The PTO Does Not Use BRI in Reexamination Proceedings When the Claims are Not Eligible for Amendment**

When the claims in a reexamination proceeding are not eligible for amendment, which is the case when a patent has expired (but is still being reexamined because of issues relating to its pre-expiration validity), the PTO uses the narrower interpretation that would be applied in the courts. As the PTO’s MPEP § 2258 G explains,

In a reexamination proceeding involving claims of an expired patent, claim construction pursuant to the principle set forth by the court in *Phillips v. AWH Corp.*, 415 F.3d 1303, 1316, 75 USPQ2d 1321, 1329 (Fed. Cir. 2005) (words of a claim “are generally given their ordinary and customary meaning” as understood by a person of ordinary skill in the art in question at the time of the invention) should be applied *since the expired claim are not subject to amendment.*” (italics added)

In MPEP section 2666.01, the PTO expressly acknowledges that the principles set forth in *Phillips* will result in narrower claim constructions:

Once the patent expires, a narrow claim construction is applied. See MPEP § 2258, subsection I.G. “Claim Interpretation and Treatment.”

This approach allows the PTO to determine the meaning of claim terms as they are understood by one of ordinary skill in the art, to read in limitations into the claims when appropriate, and to construe the claims in keeping with limitations that may result from the patent owner’s arguments made during earlier proceedings.

BRI is thus not the “one single standard” that the PTO uses in post issuance proceedings. While less common, the PTO is already using the judicial claim construction principles set forth in *Phillips* when the patent owner does not have the right to amend the claims at issue. As no problems have arisen from the longstanding, concurrent use of two claim construction standards in the PTO, it would not appear that the PTO would experience any difficulty applying judicial claim construction principles in PGR and IPR proceedings.<sup>15</sup>

<sup>14</sup> But see *Idle Free Systems, Inc. v. Bergstrom Inc.* at 3

<sup>15</sup> The PTO has also posited that it would be unworkable for the PTO to continue to use BRI in examinations, reexaminations and reissues, while using the court interpretation in IPR and PRG. See the Director’s blog post at [www.uspto.gov/blog/director/entry/ensuring\\_quality\\_inter\\_partes\\_and](http://www.uspto.gov/blog/director/entry/ensuring_quality_inter_partes_and). Yet the PTO is already using the judicial interpretations of claims in certain reexaminations and reissues, apparently without difficulty. Since the courts and ITC will continue to apply the judicial interpretation to patent claims, it would appear to be far more important for PGR and IPR to conform to the standards used in these other adjudications, rather than to use BRI because it is the most common approach used in examinational proceedings.

## 2. In PGR and IPR Congress Has Not Directed the USPTO “to Evaluate for Patentability and Not for Validity”

The PTO has further posited that the “AIA directs” the PTO to use BRI because the AIA “has directed us to evaluate for patentability not for validity, and an evaluation for patentability is an evaluation that applies the broadest reasonable interpretation standard.”<sup>16</sup> The PTO’s rationale is thus based on two assumptions: (1) that patentability evaluations are different from validity evaluations, and (b) that the AIA directs the PTO to evaluate for the former, not the latter.

### a. Differences Between Patentability and Validity Evaluations

The principle function of the PTO is to conduct patent examinations -- proceedings to decide whether patent claims presented by applicants for examination are “patentable.” Once a patent has been granted by the PTO, and a controversy arises concerning its infringement, accused parties may challenge the correctness of the PTO’s patentability determinations in the district courts by raising one or more of the invalidity defenses specified under 35 USC § 282. In these court proceedings, each patent claim is presumed to be valid “independently of the validity of other claims” and the “burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.” *Id.* If the challenger fails to carry his burden in court, the patent claim will be declared “not invalid.”<sup>17</sup> Thus, the major difference between patentability and “unpatentability” (invalidity) evaluations is that in patentability evaluations the claim is examined by the PTO without regard to whether or not the PTO has previously determined it to be patentable, whereas in “unpatentability” proceedings the PTO’s prior determination of patentability is accepted, and the burden of proving unpatentability (invalidity) is placed on the third party challenger.

While *ex parte* reexamination and reissue proceedings involve patent claims previously granted by the PTO, the courts construe them to be patentability proceedings because they involve return of the patent to the PTO for further examination under essentially the same rules and procedures as are used during their initial examinations, and (except for a short time at the outset for reexaminations prompted by a third party) do not involve ongoing participation by parties other than the patent owner and the PTO. As explained by the Federal Circuit speaking *en banc* in *In re Fetter*:

In a very real sense, the intent underlying reexamination is to “start over” in the PTO with respect to the limited examination areas involved, and to *re* examine the claims, and to *examine* new or amended claims, as they would have been considered if

<sup>16</sup> <http://www.judiciary.senate.gov/hearings/hearing.cfm?id=d1d944e8c0b3e2a582633afae6ba43a> at minute 94.

<sup>17</sup> *In re Baxter Int'l, Inc.*, 678 F.3d 1357, 1362 (Fed Cir. 2012) (“Should the challenger fail to meet that burden, the court will not find the patent ‘valid,’ only ‘that the patent challenger did not carry the burden of establishing invalidity in that *particular* case before the court.’”) (emphasis original).



they had originally been examined in light of all of the prior art of record in the reexamination proceeding. (at 857, *italics in original*).<sup>18</sup>

*Etter* distinguishes litigation from reexamination in several respects:

... litigation and reexamination are distinct proceedings, with distinct parties, procedures and outcomes. In the former, a litigant who is attacking the validity of a patent bears the burden set forth in section 282. In the later, an examiner is not attacking the validity of a patent, but is conducting a subjective examination of the claims in light of the prior art.<sup>19</sup>

Inter partes reexamination, which was enacted 14 years after *Etter* and has now been abolished by the AIA, was an attempt to inject ongoing involvement by third parties into a patentability proceeding that was essentially based upon the model of ex parte reexamination. Thus, notwithstanding the continued involvement of the requester in the proceeding, the PTO does not consider inter partes reexaminations to be “contested” cases.<sup>20</sup>

In Congress’s opinion, inter partes reexamination failed because it was not practical to incorporate adversarial participation into a procedure which, like patent examination itself, allowed repeated amendments of the claims at issue, with rights of appeal available to the requester and patent owner alike. Indeed, during the debate that led Congress to abandon inter partes reexamination, it was noted that this approach had not worked as intended, because it lead to protracted and unwieldy proceedings.<sup>21</sup> Third parties were generally reluctant to use inter partes reexamination, and very few of those proceedings that were instituted ever reached a final determination on the merits, even after many years of pendency.

On the other hand, court and International Trade Commission actions involving assertions of unpatentability by third parties are widely recognized adjudications for determining whether patent claims previously determined to be patentable by the PTO are invalid. As such, they are validity proceedings, not patentability proceedings. Unlike examinations and reexaminations, once a determination on the merits of the defense raised pursuant to 35 USC 282 is made in the courts or by the ITC, the patent owner does not enjoy the rights granted by 35 USC § 305 to propose “any amendment to his patent and a new claim or claims thereto, in order to distinguish the invention as claimed . . . in response to a decision adverse to the patentability of a claim of a patent,” or the rights granted by 35 USC § 314 “to propose any amendment to the patent and a new claim or claims.” If the defense is successful, the claim is adjudged “invalid,” i.e., unpatentable; if it is not, it is adjudged “not invalid.”

<sup>18</sup> *In re Etter*, 756 F.2d 852, 857 (Fed. Cir. 1985) (en banc).

<sup>19</sup> *Id.* at 858-59.

<sup>20</sup> 37 C.F.R. § 41.2 (“An appeal in an inter partes reexamination is not a contested case.”).

<sup>21</sup> 157 Cong. Rec. S5326 (daily ed. Sept. 9, 2011) (statement by Sen. Leahy) (“The current inter partes reexamination process has been criticized for being too easy to initiate and used to harass legitimate patent owners, while being too lengthy and unwieldy to actually serve as an alternative to litigation when users are confronted with patents of dubious validity.”).

In summary, the principal difference between “patentability” and “validity” proceedings is that patentability proceedings involve the PTO’s evaluation of the patentability of a claim (whether in the first instance or “starting over” as in reissue and reexamination proceedings), whereas validity proceedings involve assertions by third parties carrying a burden of proof to show that claims previously adjudged by the PTO to be patentable are unpatentable, i.e., invalid.

**b. The AIA Does Not Direct The PTO To Use BRI in PGR and IPR**

Both Congress and the Administration viewed the PGR and IPR proceedings created by the AIA not as patentability proceedings, but as alternatives to litigation for reviewing questions of patent validity. The legislative history and text of the AIA are inconsistent with the notion that the claims of a challenged patent should be construed differently in PGR and IPR than they are in the courts, and with the idea that information beyond that allowed to be considered using BRI should be ignored in these proceedings.

The PTO’s recent statement that that IPR and PGR proceedings are patentability, not validity, reviews, directly conflicts the position of the Administration at the time the AIA was pending before Congress. In a May 31, 2011 letter to Chairman Smith supporting H.R. 1249 (and its Senate counterpart, S. 23), then Secretary of Commerce Gary Locke set forth the position of the Administration on the post-issuance review proceedings in these bills, which were essentially identical to those enacted by the AIA. Secretary Locke explained that

[T]he Administration supports establishing a new post-grant review proceeding and retooling the existing post-grant *inter partes* reexamination procedure. These proceedings will serve to minimize costs and increase certainty by offering efficient and timely alternatives to litigation *as a means of reviewing questions of patent validity*. Such proceedings also will provide a check on patent examination, ultimately resulting in higher quality patents.

... The bill also establishes a time-limited *transitional post-grant review proceeding which would enable the USPTO, upon petition, to review the validity of a limited range of business method patents*....<sup>22</sup>

The Administration’s interpretation of the AIA as explained by Secretary Locke is consistent with the text of the AIA, which specifies that in PGR and IPR proceedings, it is the PTO’s responsibility to decide whether petitioners have carried their burden of proof as to the unpatentability, i.e., invalidity, of one or more of the challenged claims.<sup>23</sup> Indeed, both proceedings follow a classic adversarial model where the petitioner sets forth the grounds upon

<sup>22</sup> Locke letter to Smith at 3 (bolding and italics added).

<sup>23</sup> 157 Cong. Rec. S1041 (daily ed. March 1, 2011) (statement by Sen. Kyl) (“Senators Feingold and COBURN and I also recommended that the Patent Office be allowed to operate inter partes reexamination as an adjudicative proceeding, where the burden of proof is on the challenger and the office simply decides whether the challenger has met his burden. The present bill makes this change, repealing requirements that inter partes be run on an examinational model and allowing the PTO to adopt an adjudicative model.”) (capitalization of Mr. Coburn’s name in the original).

which the challenge to the validity or “unpatentability” of the claims of a patent is based, the patent owner is allowed a response, and the Director determines whether the criteria for instituting a proceeding have been met. Once declared, the patent owner has a further opportunity present evidence and argument in opposition to the petitioner’s challenge, and the petitioner is given an opportunity for rebuttal. Under the PTO’s proposed rules, these later proceedings are termed a “trial,” which is to be held before a newly constituted “Patent Trial and Appeal Board” composed of administrative law judges.

AIA 316(e) and 326(e) set forth “Evidentiary Standards” applying to these proceedings that place the burden of proof of “unpatentability” on the challenger:

In [an inter partes] [a post grant] review instituted under this chapter, the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.

Under AIA 311(b), IPR is restricted to certain types of unpatentability challenges:

A petitioner in an inter partes review may request to cancel as unpatentable 1 or more claims of a patent only on a ground that could be raised under section 102 or 103 and only on the basis of prior art consisting of patents or printed publications.

Under AIA § 322(b), the scope of PGR is more expansive, extending to the same invalidity grounds that accused infringers are permitted to raise in court:

A petitioner in a post-grant review may request to cancel as unpatentable 1 or more claims of a patent on any ground that could be raised under paragraph (2) or (3) of section 282(b) (relating to invalidity of the patent or any claim).

Section 18(a)(1)(C) of the AIA, which extends the scope of PGR proceedings to certain covered business method patents, similarly references a “petitioner...*who challenges the validity* of 1 or more claims. . .” (italics added).

Finally, in PGR and IPR proceedings, as in court proceedings, the Patent Trial and Appeals Board will render only one decision on the unpatentability (invalidity) of the challenged claims, after which the patent owner will have no right to amend his patent claims (or to seek a trial *de novo* in federal district court), as he would were the patent in examination, reexamination or reissue.

The legislative history of the AIA is also replete with references to PGR and IPR as adjudicative, not examinational, proceedings designed to allow members of the public to have invalidity challenges that previously could only be heard in federal district courts determined quickly and inexpensively in the PTO.<sup>24</sup> The House Report is representative:

<sup>24</sup> 157 Cong. Rec. S142 (daily ed. Jan. 25, 2011) (statement by Sen. Hatch) (“the Patent Reform Act of 2011 “would improve the system for administratively challenging the validity of a patent at the USPTO”); 157 Cong. Rec. S951 (daily ed. February 28,

The Act converts inter partes reexamination from an examinational to an adjudicative proceeding, and renames the proceeding “inter partes review.”<sup>25</sup>

The House Report notes that, “Petitioners bear the burden of proving a patent is invalid....,” further explaining:

The Act also creates a new post-grant opposition procedure that can be utilized during the first 12 months after the grant of a patent or issue of a reissue patent. Unlike reexamination proceedings, which provide only a limited basis on which to consider whether a patent should have issued, the *post-grant review proceeding permits a challenge on any ground related to invalidity under section 282*. The intent of the post-grant review process is to enable early challenges to patents. . . . The Committee believes that *this new, early-stage process for challenging patent validity*. . . will make the patent system more efficient and improve the quality of patents and the patent system.<sup>26</sup>

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2011) (statement by Sen. Hatch) (“The bill will also establish another means to administratively challenge the validity of a patent at the U.S. Patent and Trademark Office, USPTO—creating a cost-effective alternative to formal litigation, which will further enhance our patent system.”); 157 Cong. Rec. S952 (daily ed. February 28, 2011) (statement by Sen. Grassley) (“In addition, the bill would improve the current inter partes administrative process for challenging the validity of a patent. It would establish an adversarial inter partes review, with a higher threshold for initiating a proceeding. . . .”); 157 Cong. Rec. S1041 (daily ed. March 1, 2011) (statement by Sen. Kyl) (“The present bill imposes higher thresholds, requiring a reasonable likelihood of invalidity for inter partes review, and more-likely-than-not invalidity for post-grant review. Senators Feingold and COBURN and I also recommended that the Patent Office be allowed to operate inter partes reexamination as an adjudicative proceeding, where the burden of proof is on the challenger and the office simply decides whether the challenger has met his burden. The present bill makes this change, repealing requirements that inter partes be run on an examinational model and allowing the PTO to adopt an adjudicative model.”); 157 Cong. Rec. S1097 (daily ed. March 2, 2011) (statement by Sen. Hatch) (“The pending legislation also provides a new postgrant review opposition proceeding to enable early challenges to the validity of patents. This new but time-limited postgrant review procedure will help to enhance patent quality and restore confidence in the presumption of validity that comes with issued patents.”); 157 Cong. Rec. S1111 (March 2, 2011) (statement by Sen. Leahy) (“[I]t decreases the likelihood of expensive litigation because it creates a less costly, in-house administrative alternative to review patent validity claims.”); 157 Cong. Rec. S1326 (daily ed. March 7, 2011) (statement by Sen. Sessions) (“Other reforms included in the bill will improve the quality of U.S. patents over the long term. The bill creates a new post-grant review of patents, which can be sought within the first 9 months after the patent is issued and used to raise any challenge to the patent. This will allow invalid patents that were mistakenly issued by the PTO to be fixed early in their life, before they disrupt an entire industry or result in expensive litigation. \* \* \* The bill also makes structural reforms to post-grant review that were sought by the PTO. It allows inter partes reexamination to be run as an adjudicative system, and elevates the threshold for starting post-grant proceedings. The PTO has insisted that a higher threshold is critical to its ability to administer these proceedings. By raising the threshold for starting an inter partes review to a showing of a “reasonable likelihood” that a patent is invalid, the bill will allow the PTO to avoid accepting challenges that were unlikely to win in any event.”); 157 Cong. Rec. S1352 (daily ed. March 8, 2011) (statement by Sen. Udall) (“Inter partes reexamines a proceeding at the Patent Office that allows for the validity of a patent to be challenged in an administrative proceeding. These proceedings are intended to serve as a less-expensive alternative to courtroom litigation and provide additional access to the expertise of the Patent Office on questions of patentability.”); 157 Cong. Rec. S1374-5 (daily ed. March 8, 2011) (statement by Sen. Kyl) (“In addition, the bill creates a new post-grant review in which a patent can be challenged on any validity ground during the first nine months after its issue.”); 157 Cong. Rec. S3768 (daily ed. June 14, 2011) (statement by Sen. Leahy) (“Section 18 of H.R. 1249 provides for a tailored pilot program which would allow patent office experts to help the court review the validity of certain business method patents using the best available prior art as an alternative to costly litigation.”); 157 Cong. Rec. S5326 (daily ed. Sept. 9, 2011) (statement by Sen. Leahy) (“The bill will also improve upon the current system for challenging the validity of a patent at the PTO. The current inter partes reexamination process has been criticized for being too easy to initiate and used to harass legitimate patent owners, while being too lengthy and unwieldy to actually serve as an alternative to litigation when users are confronted with patents of dubious validity.”).

<sup>25</sup> House Report, 112-98—Part 1, page 46.

<sup>26</sup> House Report 112-98—Part 1, Page 47 (italics and bolding added). See also *id.* at 75: “Subsections (a) and (d) [of Section 6 of the AIA], enact new chapters 31 and 32, which create adjudicative systems of post-grant and inter partes reviews.”

From the foregoing it is clear that the IPR and PGR proceedings were never intended to be “patentability” determinations, but rather adjudicative proceedings for deciding whether a petitioner has proven the “unpatentability,” i.e. the invalidity of one or more of the challenged patent claims.

The text of the AIA is also consistent with the view that PGR and IPR are intended as new processes for challenging validity, not as continuations of the examination process. The words “broadest reasonable interpretation” are nowhere mentioned in the AIA or in the legislative history of the bill other than in one offhand floor remark of Senator Kyl who made mention of a “broadest reasonable interpretation” not as one that would be applied by the PTO, but rather as one that might “now” be asserted by a patent owner in a post issuance proceeding<sup>27</sup> (which could only be in a reexamination proceeding, not in a PGR or IPR proceeding).

And to the contrary, various provisions of the AIA relating to PGR and IPR refute the suggestion that BRI may be used in connection with the construction of issued patent claims. Under the amendment to 35 U.S.C. § 301 made by AIA Section 6(g), for example, various new categories of information are specified that may now be submitted to the PTO for consideration in IPR and PGR proceedings. This provision opens these proceedings to the submission and introduction of intrinsic and extrinsic evidence that is relevant to claim construction, including “statements of the patent owner filed *in a proceeding before a Federal court or the Office* in which the patent owner took a position on the scope of any claim of a particular patent.” AIA § 301(a)(2)(italics added). Such information, which is of the type authorized for consideration under *Phillips* but not BRI as applied by the PTO, is to be used by the PTO solely for the purpose of construing challenged patent claims. As AIA § 301(d) states:

(d) LIMITATIONS – A written statement submitted pursuant to subsection (a)(2) [of 301] *...shall not be considered by the Office for any purpose other than to determine the proper meaning of a patent claim* in a proceeding that is ordered or instituted pursuant to section 304 [ex parte reexamination], 314 [IPR], or 324 [PGR]. (italics added).

Since such information would not be relevant under BRI, the only reasonable conclusion is that the statute intends that such information be considered in connection with the determination of “the proper meaning” of a patent claim both when instituting and deciding PGR and IPR proceedings. As Senator Kyl explained:

This provision allows written statements of the patent owner regarding claim scope that have been filed in court or in the Office to be made a part of the official file of the patent, and allows those statements to be considered in reexaminations and inter partes and post-grant reviews for purposes of claim construction. This information should help the Office understand and construe the key claims of a patent.<sup>28</sup>

<sup>27</sup> 157 Cong. Rec. S1375 (daily ed. March 8, 2011) (statement by Sen. Kyl) (Section 301 “should also allow the Office to identify inconsistent statements made about claim scope—for example, cases where a patent owner successfully advocated a claim scope in district court that is broader than the ‘broadest reasonable construction’ that he now urges in an inter partes review.”).

<sup>28</sup> *Id.*

Other sections of the AIA are consistent with the view that the PTO may not ignore prior proceedings relating to the patent claims at issue, as it would were BRI the operative standard. AIA § 324, relating to the relation of PGR and IPR to other proceedings or actions, states in relevant part:

In determining whether to institute or order a proceeding under this chapter [PGR], chapter 30, or chapter 31 [IPR], the Director may take into account whether, and reject the petition or request because, the same or substantially the same prior art or arguments previously were presented to the Office.

During the March 8, 2011, Senate debate of the AIA, Senator Kyl explained that the purpose of this section was to ensure the PTO would consider the prior prosecution history of the patent, so that PGR and IPR proceedings would not become vehicles for the reconsideration of issues that were previously before the PTO:

In the second sentence of section 325(d), the present bill also authorizes the Director to reject any request for ex parte reexamination or petition for post-grant or inter partes review on the basis that the same or substantially the same prior art or arguments previously were presented to the Office. *This will prevent parties from mounting attacks on patents that raise issues that are substantially the same as issues that were already before the Office with respect to the patent.* The Patent Office has indicated that it currently is forced to accept many requests for ex parte and inter partes reexamination that raise challenges that are cumulative to or substantially overlap with issues previously considered by the Office with respect to the patent.

Senator Kyl further reported that that the PTO anticipated that it will be dealing with different claim constructions advanced by different petitioners challenging the same patent, and that the PTO's joinder decisions would turn on, among other factors, litigation-based constructions and rulings:

The Office also has indicated that it may consider the following factors when determining whether and when to allow joinder: differences in the products or processes alleged to infringe; *the breadth or unusualness of the claim scope that is alleged, particularly if alleged later in litigation; claim-construction rulings that adopt claim interpretations that are substantially different from the claim interpretation used in the first petition when that petition's interpretation was not manifestly in error*; whether large numbers of patents or claims are alleged to be infringed by one or more of the defendants; consent of the patent owner; a request of the court; a request by the first petitioner for termination of the first review in view of strength of the second petition; and whether the petitioner has offered to pay the patent owner's costs.<sup>29</sup>

<sup>29</sup> 157 Cong. Rec. S1376 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) (italics added).

These directives would have no meaning had it been the intention of Congress that the PTO ignore the prosecution history of the patent at issue and judicial claim construction rulings, as the PTO's BRI approach would mandate, in deciding whether a PGR or IPR should be instituted.

### **3. The AIA Does Not Provide Sufficient Opportunity for Patent Owners to Amend their Claims to Justify the Use of BRI in PGR and IPR**

The lynch pin for allowing the use of BRI under *Yamamoto* --- an applicant's right to amend the claims at issue as needed to overcome their rejections by the PTO --- is lacking as to both issued patent claims and any substitutes that may be added during PGR and IPR. In fact, in PGR and IPR proceedings, *the challenged claims of an issued patent may never be directly amended*. The patent owner's only options with respect to the original claims of a challenged patent are to have them examined in PGR and IPR in the forms they were issued, or to cancel them in their entirety.

AIA §§ 316(d) & 326(d) relating to amendments of a patent during IPR and PGR are worded differently from 35 USC § 305, which authorizes amendments in reexaminations. Section 305 not only permits the introduction of "a new claim or claims" in reexaminations, but also allows the patent owner to "propose any amendment to his patent," thus allowing direct amendment of originally issued patent claims. As explained in the ABA-IPL, AIPLA and IPO joint comments on the PTO's proposed AIA rules:

The "ability to amend" cited by the court in decisions such as *In re Yamamoto*, 740 F.2d 1569, 1571 (Fed. Cir. 1984) is the unlimited ability to amend as present during initial examination. The reexamination statutes provide that the patent owner is "permitted to propose any amendment to the patent and a new claim or claims" apart from claims which enlarge the scope of the patent. 35 U.S.C. § 305 and pre-AIA § 314(a). If an Examiner advances a new rejection in a reexamination, the action normally is not a final action or an action closing prosecution. Even after final action or action closing prosecution, the patent owner can make amendments necessitated by the new rejection. 37 C.F.R. § 1.116. If the Board advances a new rejection on appeal, prosecution is reopened and the patentee has a right to amend again. 37 C.F.R. §§ 41.50(b) and 41.77(b). Thus, the patent owner can amend as needed in response to newly adduced evidence. IPR and PGR as proposed do not afford such an unlimited right to amend.<sup>30</sup>

By contrast to this "any amendment" language, corresponding sections of the AIA provide no right to amend a challenged patent claim, only to file a motion to cancel it in its entirety. AIA § 326(d) is representative:

(d) Amendment of the Patent. – (1) In general. - During a post-grant review instituted under this chapter, the patent owner may file 1 motion to amend the patent in 1 or more of the following ways:

<sup>30</sup> ABA-IPL, AIPLA and IPO joint submission of comments on the proposed rules, at page 7.

(A) Cancel any challenged patent claim.

(B) For each challenged claim, propose a reasonable number of substitute claims.<sup>31</sup>

While “a reasonable number” of substitute claims may be added,<sup>32</sup> the PTO’s PGR and IPR rules still do not allow for the kind of iterative amendment process that would be required to authorize the use of BRI under *Yamamoto*. Only one opportunity to present substitute claims is guaranteed under AIA §§ 316(d) and 326(d), and any further amendment of those claims is allowed under subsection (d)(2) only “to materially advance the settlement of a proceeding” or “as permitted by regulations prescribed by the Director.”<sup>33</sup> As noted in the joint comments of the ABA-IPL, AIPLA and IPO:

IPR and PGR as proposed do not afford such an unlimited right to amend. In IPR and PGR, the patent owner is presumptively limited to only “one motion to amend the patent.” See AIA, 35 U.S.C. § 316(d)(1). Even this one amendment requires approval by the Board. Proposed Section 42.121. After the patent owner’s amendment, the petitioner “may supplement evidence submitted with their petition to respond to new issues arising from” the patent owner’s one amendment. Practice Guide for Proposed Trial Sections, 77 F.R. §§ 6868, 6875. The Patent owner may not further amend to meet new arguments or new evidence advanced by the petitioner in a response or by an Administrative Patent Judge at trial.<sup>34</sup>

Moreover, the 12-18 month time constraints imposed by statute on PGR and IPR proceedings make an iterative amendment process of the kind needed to justify the use of BRI a practical impossibility. Given such short time frames, no right of amendment is, or could be, given to the patent owner to amend his claims following the Patent Trial and Appeal Board’s decision on the merits, thereby depriving the patent owner of the basis on which the fairness of BRI rests --- that a patent owner is not harmed because he may amend his claims in response to an adverse ruling on patentability.

In situations where BRI forces the introduction of “substitute claims” when the use of the judicial construction would not have, the patent owner will inevitably be prejudiced because such substitutes can never provide protections equivalent to those of the original patent claims. First, no amendment of the patent under IPR or PGR “may enlarge the scope of the claims of the

<sup>31</sup> See also AIA §§ 316(9) and 326(9), which authorize the Director to prescribe regulations for “setting forth standards and procedures for allowing the patent owner to move to amend the patent under subsection (d) to cancel a challenged claim or propose a reasonable number of substitute claims...”

<sup>32</sup> And as noted above in *Idle Free Systems, Inc. v. Bergstrom Inc.*, the “reasonable number of substitute claims” has become “only one claim”. *Id.* at 5.

<sup>33</sup> In the PTO’s proposed rules, a motion to amend a substitute claim may be allowed for “good cause showing.” Practice Guide for Proposed Trial Rules, 77 Fed. Reg. 6868, 6874 (Feb. 9, 2012). The PTO’s “Practice Guide” further discourages proposed amendments filed later than the patent owner’s response or opposition to the petition, warning that “[a]mendments filed late in the proceeding may impair a petitioner’s ability to mount a full response in time to meet the statutory deadline for the proceeding. Hence, in evaluating good cause, the Board will take into account the timing of the submission with request made earlier in the proceeding requiring less compelling reasons than would be required for amendments later...” *Id.*

<sup>34</sup> ABA-IPL, AIPLA and IPO joint submission of comments on the proposed rules, at pages 8-9.



patent or introduce new matter,” so that from a practical standpoint, most substitute claims will be narrower than the original patent claims.<sup>35</sup> Second, the terms of substitute claims begin with their grants, and may be further limited as against preexisting infringements by the AIA’s intervening rights provisions.<sup>36</sup> As such, when the introduction of one or more substitute claims is forced solely because of the application of BRI, patent owners will lose any accrued patent damages, and will also likely be denied injunctive relief as to ongoing infringements.

In summary, use of BRI in PGR and IPR will lack the safeguards on which *Yamamoto’s* authorization of BRI depends. Without these safeguards, what remains amounts to a substantive change in the way patent claims are to be construed in PTO proceedings brought by third parties to deprive patent owners of their vested patent rights. As the bar associations have noted, this raises serious questions as to whether in forcing BRI into IPR and PGR the PTO is exceeding its rule making power, which is procedural, not substantive.<sup>37</sup>

#### **4. The Use of BRI in IPR and PGR Proceedings is Neither in the Public’s Nor the Patent Owner’s Best Interests**

There are a number of compelling reasons why the use of BRI is neither in the public’s or the patent owner’s best interests. First, the PTO’s use of BRI in PGR and IPR negates a principal purpose of PGR and IPR -- to serve as a quality control check on PTO performance by addressing the issue of whether the PTO is granting patents with claims that will stand up in court. PGR and IPR were enacted by the AIA along with several other initiatives intended to improve patent quality, including increased funding for the PTO and more objective standards under which patents are to be examined. PGR and IPR were provided as part of these quality initiatives to provide the public less expensive processes than litigation for weeding out patents that would not stand up in court. The use of BRI in PGR and IPR would negate this quality control function, as BRI mandates that prior PTO proceedings be ignored in construing the claims, so that neither the PTO nor the public will ever know if the PTO got the patentability issue right in the first place.

Second, the PTO’s use of BRI will preclude members of the public from being able to base their patent challenges on the claim interpretations that are applicable in court, and impose on the public and patent owners alike the burden of many PRG and IPR proceedings that would have been unnecessary had the patent claims been more narrowly construed.

The legislative history of the AIA reflects that Congress was seeking to avoid unnecessary PGR and IPR proceedings, not to encourage them. To prevent patentees from being

<sup>35</sup> AIA §§ 316(d)(3) & 326(d)(3). In these respects, substitutes are treated similarly to amended claims in reexaminations.

<sup>36</sup> See AIA §§ 316 (d) & 318 (c) for IPR and §§ 326(d) and 328 (c) for PGR.

<sup>37</sup> ABA-IPL, AIPLA and IPO joint submission of comments on the proposed rules, at page 7: “To the extent that is the intent of the Office’s Proposed Rules would result in claim constructions that differ from those mandated under judicial precedent, these rules would also appear to exceed the authority of the Office, which does not enjoy substantive rule making power.” *Tafus v. Doll*, 559 F.3d 1345, 1352 (1<sup>st</sup> ed. Cir. 2009).

harassed by such proceedings, and to protect the public from expending time and expense on petitions that are not likely meritorious, Congress raised the thresholds for instituting PGR and IPR above those used in reexaminations, and incorporated other safeguards allowing the PTO to decline to institute them even where those thresholds have been met. Congress was concerned that the 95% institution rate for inter partes reexamination was too high. As a result, both PGR and IPR abandoned the “substantial new question” threshold used in reexaminations in favor of higher threshold standards, with the expectation that the institution rates would drop substantially.<sup>38</sup> Nonetheless, the PTO estimates that, with BRI in place, about 90% of all PGR and IPR petitions will still result in proceedings being instituted. The PTO’s use of BRI will thus subject owners of patents with claims that would be found perfectly valid in the courts to many unnecessary PTO proceedings.

The use of BRI in PGR and IPR will also deprive members of the public from bringing petitions, and patent owners from defending against those petitions, based upon the claim constructions that would be used in the courts. The expansion of the challenged patent’s claims under BRI means that both sides will be subjected to still-relatively-expensive administrative proceedings that may only end up showing that the original determination of patentability was entirely correct, and that if the PTO had only interpreted the claim terms in accordance with their “ordinary and customary” meanings in the first place, the proceeding would not have had to be instituted. Given that it has been estimated that the cost to each party to complete an IPR or PGR will be between \$250,000 and \$750,000 or more, the PTO’s approach represents a tax on the inventor community that may impose an undue financial burden on some of its most vulnerable members – independent inventors, startups, small businesses and university tech transfer offices.

Third, the PTO’s use of BRI in PGR and IPR will force many patent owners to cancel claims and submit substitute claims, thus forfeiting substantial portions of their patent grant, when neither would have been required had the PTO construed them as they are in court. Patent owners will thus be deprived patent protection to which the PTO had earlier, correctly determined the patent owner was entitled.

The House Report on the AIA in fact cautions the PTO to protect the inventor community from potential abuses that could arise as the result of the new IPR and PGR proceedings:

The Committee recognizes the importance of quiet title to patent owners to ensure continued investment resources. While this amendment is intended to remove current disincentives to current administrative processes, the changes made by it are not to be used as tools for harassment or a means to prevent market entry through repeated litigation and administrative attacks on the validity of a patent. Doing so would frustrate

<sup>38</sup> 157 Cong. Rec. S1375 (daily ed. March 8, 2011)(statement by Sen. Kyl) (“Among the most important protections for patent owners added by the present bill are its elevated thresholds for instituting inter partes and postgrant reviews. The present bill dispenses with the test of ‘substantial new question of patentability,’ a standard that currently allows 95% of all requests to be granted. It instead imposes thresholds that require petitioners to present information that creates serious doubts about the patent’s validity. Under section 314(a), inter partes review will employ a reasonable-likelihood-of-success threshold, and under section 324(a), postgrant review will use a more-likely-than-not-invalidity threshold.”).

the purpose of the section as providing quick and cost effective alternatives to litigation. Further, such activity would divert resources from the research and development of inventions. As such, the Committee intends for the USPTO to address potential abuses and current inefficiencies under its expanded procedural authority.<sup>39</sup>

Fourth, the PTO's use of BRI in PGR and IPR will prejudice the public and many accused infringers when the patentability of the then-more-broadly-construed claims are confirmed, leading to judicial decrees of infringement liability that would not otherwise have occurred.<sup>40</sup> Such a result will be most common when the judicial construction would have narrowly construed the original patent claims because of arguments made during the original prosecution, but will not if those arguments are not repeated during the PGR or IPR. The result may discourage accused infringers from challenging patent in PGR or IPR for fear the asserted patent's claim may be effectively broadened through the application of BRI in construing its original text.

Moreover, such potential outcomes will disturb the "bedrock principle" of patent law that the claims of a patent as interpreted using applicable judicial precedent will "define the invention to which the patentee is entitled the right to exclude."<sup>41</sup> The public will no longer be able to rely on the scopes of issued patent claims as they were finally construed during their initial examinations, or to make their licensing, product development and related business decisions based on them.<sup>42</sup>

#### *Conclusion*

The PTO's use of BRI in IPR and PGR proceedings is inconsistent with both the text of the AIA and its legislative history. Congress envisioned PGR and IPR as adjudicative, not examinational, proceedings for allowing members of the public to challenge the validity of patents in the PTO. Accordingly, in ruling on those challenges, the PTO should interpret the involved patent claims as they would be in court.

The use of BRI to interpret patent claims in IPR and PGR is now resulting in prejudice to petitioners, patent owners and the public at large. The principle justification for allowing the PTO to use BRI in its examinational proceedings --- that patent owners will not be harmed because there is a sufficient opportunity for patent owners to amend their claims as needed in

<sup>39</sup> See <http://judiciary.house.gov/issues/Patent%20Reform%20PDFS/CRPT-112hprt98-pt1.pdf>, at page 48.

<sup>40</sup> Elsewhere, the PTO has posited that it would be unworkable for the PTO to continue to use BRI in examinations, reexaminations and reissues, while using the court interpretation in IPR and PRG. See the Director's blog post at [www.uspto.gov/blog/director/entry/ensuring\\_quality\\_inter\\_partes\\_and](http://www.uspto.gov/blog/director/entry/ensuring_quality_inter_partes_and). As explained herein, the PTO is already using the court interpretation in certain reexaminations and reissues, and will continue to do so. Moreover, since the courts and ITC will continue to apply the judicial interpretation to patent claims, as discussed herein, claim construction consistency among all PTO proceedings is neither obtainable nor desirable.

<sup>41</sup> *Phillips*, 415 F.3d at 1312.

<sup>42</sup> Moreover, the AIA places no limit on the number of IPR proceedings that may be brought against a single patent by successive challengers, each of which, due to BRI, might expand the patent's scope, thereby leading to further uncertainty.

response to adverse PTO rulings on patentability --- is lacking in PGR and IPR. The use of BRI in PGR and IPR frustrates the Congressional intent of establishing them as checks to see if the PTO is granting patents that will stand up in court. Because claims are interpreted more broadly using BRI, its use in PGR and IPR is leading to the declaration of numerous unnecessary proceedings in which many patent owners are being forced to cancel their original patent claims and submit substitutes, thereby forfeiting substantial portions of their original patent grant. The public and accused infringers are further being prejudiced when the patentability of the then-more-broadly-construed claims are confirmed in PGR and IPR, resulting in judicial decrees of infringement liability that would not have occurred had the PTO applied judicial claim construction principles.

There is no good reason for the PTO to refuse to apply traditional judicial claim construction principles in construing claims in IPR and PGR proceedings. The PTO is already applying that precedent in certain post issuance proceedings, where a right to amend the claims is not available, and could easily do so in IPR and PGR. Given that the PTO will continue to use both BRI and judicial claim interpretation in various of its examination proceedings, claim construction uniformity is not achievable within the PTO. Application of a uniform rule specifying that judicial claim construction principles apply to all adjudicative patent invalidity proceedings is achievable, and should be adopted by the PTO for PGR and IPR, as it has been in the courts and ITC.<sup>43</sup>

The Coalition has approximately 50 members from 18 diverse industry sectors and includes many of the nation's leading manufacturers and researchers. The Coalition's Steering Committee includes 3M, Caterpillar, General Electric, Johnson & Johnson, Eli Lilly and Procter & Gamble. Visit <http://www.patentsmatter.com> for more information.

<sup>43</sup> To foreclose the possibility that the PTO may use BRI in IPR and PGR, the Coalition for 21<sup>st</sup> Century Patent Reform has proposed two technical amendments to clarify that, during PGR and IPR, issued patent claims should be construed the same way as they are in the courts. In particular it is proposed that the concluding sentence (shown in italics) be added at the end of sections 311 (b) and 321 (b): “(b) SCOPE.—A petitioner in a [post-grant] [inter partes] review may request to cancel as unpatentable 1 or more claims of a patent on any ground that could be raised under [paragraph (2) or (3) of section 282(b) (relating to invalidity of the patent or any claim)] [section 102 or 103 and only on the basis of prior art consisting of patent or printed publications]. *In such determinations of unpatentability, each claim of an issued patent shall be construed as though its validity were at issue as a defense under section 282(b).*” (Proposed amendments in italics; differences between existing sections 311(b) and 321(b) shown in brackets). Section 9(c) of the “Discussion Draft” published by Chairman Goodlatte on May 23, 2013, would reach the same result by adding the following language to both sections 316(a) and 326(a): “providing that for all purposes under this chapter, each claim of a patent shall be construed as such claim has been or would be in a civil action to invalidate a patent under section 282, including construing each claim of the patent in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art, the prosecution history pertaining to the patent, and prior judicial determinations and stipulations relating to the patent.”




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**UNITED STATES PATENT AND TRADEMARK OFFICE**


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UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND  
DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

JUN 26 2001

The Honorable Lamar Smith  
Chairman, Committee on Science, Space, and Technology  
U.S. House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

Thank you for your letter requesting information regarding pending "pre-GATT" patent applications, *i.e.*, those pending applications filed before the June 8, 1995, effective date of the amendments made by section 532 of the Uruguay Round Agreements Act ("URAA") (Pub. L. No. 103-465). By statute, pending pre-GATT applications are normally confidential until granted as a patent.

In response to your request, we have enclosed a spreadsheet that provides specific information regarding each of the 482 currently pending "pre-GATT" patent applications. These applications are in different stages of prosecution. As requested, the spreadsheet includes information on the filing date and priority dates; inventor name; assignee recordation; entry of a request for continued examination (RCE), a continued prosecution application (CPA), or a request to reopen prosecution under Code of Federal Regulations rule 1.129; and whether the application has been physically lost, suspended, involved in litigation, or previously placed under a secrecy order.

Continuing prosecution of these applications has required a substantial commitment of United States Patent and Trademark Office (USPTO) personnel and resources. A dedicated team of 12 patent examiners currently works full-time on the subset of 399 "pre-GATT" applications filed by a single named inventor. Another team of 12 patent examiners, on a less than full-time basis, is charged with the continuing examination of a subset of 39 "pre-GATT" applications filed by another single named inventor.

By definition, the pre-GATT applications claim technology that was developed no later than 1995. And, as indicated in the enclosed data, many of these applications claim technology that dates to the 1980s and even 1970s. Thus, if a pending pre-GATT application were to issue as a patent today, that patent would be entitled to a 17-year term and would not expire until the year 2030. Moreover, because the pending pre-GATT applications have not been published by the USPTO, the public currently does not have notice that patents may issue that claim the inventions in question. These applications may claim established technology that has been publicly available for decades and in widespread public use. Those pre-GATT applications that are ultimately found to be patentable may also disrupt the settled expectations of manufacturers and innovators working in the patent's related field of technology.

An identical version of this letter has been sent to Chairman Leahy. Thank you for your continuing support for the employees and operations of the USPTO.

Sincerely,

A handwritten signature in dark ink, appearing to read 'T. Stanek Rea', written over a horizontal line.

Teresa Stanek Rea  
Acting Under Secretary and Acting Director

Enclosure

cc: The Honorable Robert Goodlatte  
The Honorable John Conyers



Pending Pre-1995 Patent Application (Leahy-Smith Response)

Application ID	Inventor	Assignee Recorded with USPTO	Date of Last Update of the Assignment Record	Ever relied upon for priority by another US application?	App. Filing Date	Earliest Priority Date (35 USC 120)	No. of -FR 1.29 versions filed	Ever in Interference?	Ever Suspend?	Ever entered in Court?	Ever in Court?
8451322	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		5/26/1995	11/21/1981	2				
8459760	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	1				
8459507	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	1				
8460364	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	1				
8460106	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	2				
8470476	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	2				
8473997	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	1				
8474674	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	1				
8480059	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	1				
8480383	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	1				
8482083	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	2				
8485096	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	2				
8487426	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	2				
8487558	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	1				
8487649	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		6/21/1995	11/21/1981	1				
8443653	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		5/19/1995	9/11/1987	1				
8443654	HARVEY, JOHN C	Personalized Media Comm., LLC	9/22/2000		5/19/1995	9/11/1987	2				
8501180	HYATT, GILBERT P	None Recorded			5/31/1995	4/10/1971	1				
8469592	HYATT, GILBERT P	None Recorded			6/6/1995	12/22/1989	2				
8471589	HYATT, GILBERT P	None Recorded			6/6/1995	11/24/1989	1				
8457941	HYATT, GILBERT P	None Recorded			5/31/1995	4/19/1971	2				
8472025	HYATT, GILBERT P	None Recorded			6/6/1995	4/19/1971	2				
8471042	HYATT, GILBERT P	None Recorded			6/6/1995	10/17/1984	2				
8455524	HYATT, GILBERT P	None Recorded			5/31/1995	5/31/1995	1				
8424450	HYATT, GILBERT P	None Recorded			4/21/1995	4/19/1971	1				
8420370	HYATT, GILBERT P	None Recorded			4/21/1995	4/19/1971	1				
8422234	HYATT, GILBERT P	None Recorded			4/21/1995	4/19/1971	1				
8435512	HYATT, GILBERT P	None Recorded			5/6/1995	4/19/1971	1				
8435510	HYATT, GILBERT P	None Recorded			5/6/1995	4/19/1971	1				
8463334	HYATT, GILBERT P	None Recorded			6/11/1995	4/19/1971	1				
8471204	HYATT, GILBERT P	None Recorded			6/6/1995	10/17/1984	2				
8463392	HYATT, GILBERT P	None Recorded			6/6/1995	8/6/1995	2				
8463592	HYATT, GILBERT P	None Recorded			5/6/1995	5/6/1995	1				
8457446	HYATT, GILBERT P	None Recorded			6/11/1995	3/11/1995	1				
5300771	HYATT, GILBERT P	None Recorded			11/11/1972	11/11/1972	1				
5849812	HYATT, GILBERT P	None Recorded			11/9/1977	4/19/1971	1				
6848012	HYATT, GILBERT P	None Recorded			4/21/1995	4/21/1995	1				
7280355	HYATT, GILBERT P	None Recorded			12/22/1988	2/28/1991	2				
7357570	HYATT, GILBERT P	None Recorded			5/25/1989	4/19/1971	1				
7493061	HYATT, GILBERT P	None Recorded			3/13/1990	4/19/1971	1				

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Pending Pre-1995 Patent Application (Leahy-Smith Response)

Application ID	Inventor	Assignee Recorded with USPTO	Date of Last Update of the Assignment Record	Ever relied upon for priority by another US application?	App. Filing Date	Earliest Priority Date (35 USC 120)	No. of CFR 1.29 versions Filed	Ever in Interference?	Ever Suspend?	Ever entered agency order?	Ever in Court?	Non-Court?
8458126	HYATT, GILBERT P.	Name Recorded			5/31/1995	4/19/1971	1					
8459263	HYATT, GILBERT P.	Name Recorded			5/31/1995	4/19/1971	1					
8459270	HYATT, GILBERT P.	Name Recorded			5/31/1995	4/19/1971	1					
8459238	HYATT, GILBERT P.	Name Recorded			6/1/1995	4/19/1971	1					
8457195	HYATT, GILBERT P.	Name Recorded			5/31/1995	4/19/1971	1					
8457659	HYATT, GILBERT P.	Name Recorded			5/31/1995	4/19/1971	1					
8458144	HYATT, GILBERT P.	Name Recorded			6/5/1995	4/19/1971	1					
8464035	HYATT, GILBERT P.	Name Recorded			6/5/1995	4/19/1971	1					
8468528	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/19/1971	2					
8470060	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/19/1971	2					
8470856	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/19/1971	2					
8470856	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/19/1971	2					
8470862	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/19/1971	1					
8471082	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/19/1971	1					
8471214	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/19/1971	2					
8471434	HYATT, GILBERT P.	Name Recorded			6/7/1995	4/19/1971	1					
8471932	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/19/1971	1					
8472031	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/19/1971	1					
8472032	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/19/1971	1					
8472041	HYATT, GILBERT P.	Name Recorded			5/31/1995	4/19/1971	1					
8501978	HYATT, GILBERT P.	Name Recorded			5/31/1995	4/19/1971	1					
8501979	HYATT, GILBERT P.	Name Recorded			5/31/1995	4/19/1971	1					
8501981	HYATT, GILBERT P.	Name Recorded			5/31/1995	4/19/1971	1					
8454780	HYATT, GILBERT P.	Name Recorded			5/31/1995	9/11/1972	1					
8454877	HYATT, GILBERT P.	Name Recorded			5/31/1995	9/11/1972	1					
7541088	HYATT, GILBERT P.	Name Recorded			6/21/1990	10/11/1973	1					
8469532	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/11/1973	2					
8470397	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/11/1973	2					
8471432	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/11/1973	2					
8471546	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/11/1973	2					
8471698	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/11/1973	1					
8471899	HYATT, GILBERT P.	Name Recorded			6/6/1995	11/9/1977	1					
8483011	HYATT, GILBERT P.	Name Recorded			4/7/1995	12/14/1977	2					
8423390	HYATT, GILBERT P.	Name Recorded			4/21/1995	8/19/1980	2					
8426381	HYATT, GILBERT P.	Name Recorded			4/21/1995	9/28/1982	1					
8426549	HYATT, GILBERT P.	Name Recorded			4/21/1995	9/28/1982	1					
8426554	HYATT, GILBERT P.	Name Recorded			4/21/1995	9/28/1982	1					
8426779	HYATT, GILBERT P.	Name Recorded			4/21/1995	9/28/1982	1					
8418096	HYATT, GILBERT P.	Name Recorded			4/7/1995	9/28/1982	2					
8420942	HYATT, GILBERT P.	Name Recorded			4/7/1995	9/15/1983	1					

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Application ID	Inventor	Assignee Recorded with USPTO	Date of Last Update of the Assignment Record	Ever relied upon for priority by another US application?	App. Filing Date	Earliest Priority Date (35 USC 120)	No. of PFR 1.29 versions filed	Ever in Interference?	Ever Suspend?	Ever in In Court?	Ever in In Court?
8465203	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1				
8423471	HYATT, GILBERT P.	Name Recorded			10/13/1994	8/15/1983	1				
8423081	HYATT, GILBERT P.	Name Recorded			4/17/1995	8/15/1983	1				
8428391	HYATT, GILBERT P.	Name Recorded			4/28/1995	8/15/1983	1				
8430777	HYATT, GILBERT P.	Name Recorded			4/27/1995	8/15/1983	1				
8431638	HYATT, GILBERT P.	Name Recorded			5/1/1995	8/15/1983	1				
8432384	HYATT, GILBERT P.	Name Recorded			5/1/1995	8/15/1983	1				
8432978	HYATT, GILBERT P.	Name Recorded			5/2/1995	8/15/1983	1				
8434449	HYATT, GILBERT P.	Name Recorded			5/2/1995	8/15/1983	1				
8435513	HYATT, GILBERT P.	Name Recorded			5/5/1995	8/15/1983	1				
8435907	HYATT, GILBERT P.	Name Recorded			5/5/1995	8/15/1983	1				
8435958	HYATT, GILBERT P.	Name Recorded			5/9/1995	8/15/1983	1				
8436783	HYATT, GILBERT P.	Name Recorded			5/9/1995	8/15/1983	1				
8437721	HYATT, GILBERT P.	Name Recorded			5/9/1995	8/15/1983	1				
8438012	HYATT, GILBERT P.	Name Recorded			5/9/1995	8/15/1983	1				
8438588	HYATT, GILBERT P.	Name Recorded			5/9/1995	8/15/1983	2				
8458197	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8458548	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8459562	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8459220	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8459244	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	2				
8459505	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8459508	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8459599	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8459877	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8460064	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8460392	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8460550	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8460590	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8460617	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8460708	HYATT, GILBERT P.	Name Recorded			6/2/1995	8/15/1983	1				
8460800	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1				
8460966	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1				
8461572	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1				
8462306	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1				
8463118	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	2				
8463781	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1				
8464037	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1				
8464085	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1				
8464249	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1				
8464520	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1				
8464521	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1				

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8464980	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983						
8464995	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8465006	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8465017	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8465023	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8465152	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8465176	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8465654	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8467471	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8468002	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8468010	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8469201	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8471252	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	2					
8471253	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	2					
8471254	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	2					
8481640	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8482386	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8482728	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8483104	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8481507	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8471633	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8471702	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8435033	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8435684	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8436854	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8452246	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8452333	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	2					
8453332	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	2					
8457196	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8457197	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8457206	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8457360	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	2					
8457448	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	2					
8457715	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	2					
8457726	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	2					
8458004	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8458005	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8458143	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8458206	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					
8458549	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	2					
8458608	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	2					
8458701	HYATT, GILBERT P.	Name Recorded			6/5/1995	8/15/1983	1					

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8460112	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/21/95	10/17/1984	1					
8460122	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/21/95	10/17/1984	1					
8460607	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/21/95	10/17/1984	2					
8460612	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/21/95	10/17/1984	1					
8460705	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/21/95	10/17/1984	2					
8460718	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/21/95	10/17/1984	2					
8460737	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/21/95	10/17/1984	2					
8463543	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984						
8463821	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984	2					
8463823	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984						
8464007	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984						
8464467	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/21/95	10/17/1984	1					
8464988	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984	2					
8464990	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984	1					
8465071	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984	1					
8465355	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984	2					
8465356	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/21/95	10/17/1984	2					
8465189	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984						
8465200	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984	2					
8465201	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984	2					
8465657	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984	1					
8466164	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984	2					
8466557	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984	2					
8466599	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984	2					
8469501	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984	2					
8469001	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984	1					
8469018	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/5/95	10/17/1984	1					
8469058	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984						
8469060	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984	2					
8469072	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984	1					
8469098	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984						
8469262	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984	1					
8469263	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984	1					
8469321	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984	1					
8469402	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984	3					
8469573	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984						
8469575	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984	1					
8469588	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984	2					
8469589	HYATT, GILBERT P	Apple, Inc.	10/17/1984		6/6/95	10/17/1984	2					

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Application ID	Inventor	Assignee Recorded with USPTO	Date of Last Update of the Assignment Record	Ever relied upon for priority by another US application?	App. Filing Date	Earliest Priority Date (35 USC 120)	No. of FR 129 claims filed	Ever in Interference?	Ever Suspend?	Ever entered in court?	Ever in court?
8470060	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	2				
8470062	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984					
8470064	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984					
8470066	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	1				
8471123	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	2				
8471135	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	1				
8471252	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	1				
8471425	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984					
8471426	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	2				
8471546	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	2				
8471553	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	2				
8471606	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	1				
8471608	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	2				
8471665	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	1				
8471700	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	2				
8471710	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	1				
8471845	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	2				
8471846	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	2				
8472095	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984					
8472097	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984					
8472098	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984					
8483016	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984					
8485992	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984					
8488141	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	1				
8488142	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	2				
8488173	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	2				
8471542	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/17/1984	1				
8482478	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986	1				
8482479	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986	1				
8482485	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986	1				
8482486	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986	1				
8470882	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986	1				
8470889	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986	2				
8471138	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986					
8471543	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986	2				
8471587	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986	2				
8471708	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986	1				
8471709	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986	1				
8471712	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986					
8472019	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/7/1986	1				
8470871	HYATT, GILBERT P.	Name Recorded			6/6/1995	9/28/1987					

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Application ID	Inventor	Assignee Recorded with USPTO	Date of Last Update of the Assignment Record	Ever relied upon for priority by another US application?	App. Filing Date	Earliest Priority Date (35 USC 120)	No. of PFR 1.29 claims filed	Ever in Interference?	Ever Suspend?	Ever Withdrawn or abandoned?	Ever in Court?	Non-Patent?
8457195	HYATT, GILBERT P.	Name Recorded			5/3/1995	9/28/1987	2					
8434424	HYATT, GILBERT P.	Name Recorded			5/3/1995	12/21/1988	2					
8457362	HYATT, GILBERT P.	Name Recorded			6/1/1995	12/22/1988	2					
8459206	HYATT, GILBERT P.	Name Recorded			6/2/1995	12/22/1988	2					
8459221	HYATT, GILBERT P.	Name Recorded			6/5/1995	12/22/1988	2					
8465658	HYATT, GILBERT P.	Name Recorded			6/6/1995	12/22/1988	2					
8470569	HYATT, GILBERT P.	Name Recorded			5/3/1995	3/13/1990						
8433307	HYATT, GILBERT P.	Name Recorded			6/6/1995	4/27/1990						
8466061	HYATT, GILBERT P.	Name Recorded			5/5/1995	7/15/1991	2					
8455164	HYATT, GILBERT P.	Name Recorded			6/6/1995	10/16/1991						
8430852	HYATT, GILBERT P.	Name Recorded			5/3/1995	1/16/1991	1					
8459639	HYATT, GILBERT P.	Name Recorded			6/1/1995	5/27/1991	2					
8447070	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995						
8457211	HYATT, GILBERT P.	Name Recorded			6/5/1995	6/5/1995						
8461269	HYATT, GILBERT P.	Name Recorded			6/5/1995	6/5/1995						
8467272	HYATT, GILBERT P.	Name Recorded			6/5/1995	6/5/1995						
8463110	HYATT, GILBERT P.	Name Recorded			6/5/1995	6/5/1995						
8464094	HYATT, GILBERT P.	Name Recorded			6/5/1995	6/5/1995						
8464510	HYATT, GILBERT P.	Name Recorded			6/5/1995	6/5/1995						
8465261	HYATT, GILBERT P.	Name Recorded			6/5/1995	6/5/1995						
8472062	HYATT, GILBERT P.	Name Recorded			6/6/1995	6/6/1995						
7128659	HYATT, GILBERT P.	Name Recorded			12/3/1987	12/3/1987						
8439032	HYATT, GILBERT P.	Name Recorded			5/11/1995	5/11/1995	1					
8439033	HYATT, GILBERT P.	Name Recorded			5/11/1995	5/11/1995	1					
8454986	HYATT, GILBERT P.	Name Recorded			5/31/1995	5/31/1995	1					
8454984	HYATT, GILBERT P.	Name Recorded			5/31/1995	5/31/1995	1					
8455130	HYATT, GILBERT P.	Name Recorded			5/31/1995	5/31/1995	1					
8455136	HYATT, GILBERT P.	Name Recorded			5/31/1995	5/31/1995	1					
8455137	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					
8455367	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					
8455369	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					
8455599	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					
8457096	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					
8457194	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					
8457210	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					
8457244	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					
8457265	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					
8457361	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					
8457369	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					
8457509	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					
8457663	HYATT, GILBERT P.	Name Recorded			6/1/1995	6/1/1995	1					

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6/26/2013

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[illegible]

Pending Pre-1995 Patent Application (Leahy-Smith Response)

Application ID	Inventor	Assignee Recorded with USPTO	Date of Last Update of the Assignment Record	Ever relied upon for priority by another US application?	App. Filing Date	Earliest Priority Date (35 USC 120)	No. of CFR 1.29 requests Filed	Ever in Interference?	Ever Suspend?	Ever under secrecy order?	Ever in Court?
7771161	MARTILLO, JOACHIM C. S.	Realnet, LLC	2/28/2013	✓	10/8/1991	10/8/1991					
8167054	MCCOY, JAMES L.	Almex Pharmaceuticals			12/16/1993	12/16/1993		✓			
8249000	MOFFA, EMIL	Almex Pharmaceuticals			5/25/1994	8/11/1992				✓	
5514036	MONTGOMERY, WILLIAM J.	SHORT BROTHERS PLC	2/6/2010		7/11/1993	7/11/1993					
7485944	NOILES, DOUGLAS G.	Bank of America, NA (as collateral agent)	8/14/2007	✓	3/27/1990	3/27/1990	2				
6945124	PANNEKOEK, HANS	BAUTER AXTBESSELLECHAP	10/11/2001		5/27/1996	5/27/1996	2				
8471838	PAVEL, ANDREAS	Almex Pharmaceuticals			6/6/1995	6/6/1995	2				
8467548	PAVEL, ANDREAS	Almex Pharmaceuticals			6/6/1995	6/6/1995	2				
8473995	PERGOLIZZI, ROBERT G.	Almex Pharmaceuticals			6/7/1995	5/9/1983	1				
6189274	RICHMOND, MARTIN R.	SANDERS ASSOCIATES, INC.	9/10/2008		9/22/1980	9/22/1980					
7243360	RUDY, CHRISTOPHER J.	Almex Pharmaceuticals			10/27/1989	4/11/1988					
8215336	SCHLEGEL, C. RICHARD	Georgetown University	10/27/2008	✓	3/22/1994	8/25/1992	1				
8215293	SCHLEGEL, C. RICHARD	Georgetown University	10/27/2008		3/22/1994	8/25/1992	1				
8215293	SEYEDHAR, JOHN B.	U.S. Department of the Navy	5/27/1986		5/28/1986	5/28/1986					
8169127	SHIMOHARA, HARUO	Sanmediconducting Laboratory, Co., Ltd.	3/14/1994	✓	12/20/1993	8/16/1987					
8467557	SUNAKA, SAI P.	Almex Pharmaceuticals			6/6/1995	10/27/1980					
8465725	TOBIN, ALLAN J.	Almex Pharmaceuticals	6/21/2011		6/7/1995	7/29/1985					
8293346	TURNER, FRED J.	PHANTOM TECHNOLOGY, INC.	3/16/1995	✓	8/19/1994	8/19/1994	2				
8473332	VON BORSTEL, REID W.	Almex Pharmaceuticals			9/7/1995	10/28/1987					

### TOTALS

No. of Cases Filed	No. of CFR 1.29 requests Filed	Ever in Interference?	Ever Suspend?	Ever under secrecy order?	Ever in Court?
482	460	21	437	8	36

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8/25/2013

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Statement of the  
**National Retail Federation**  
submitted to the

**United States House of Representatives**  
**Committee on Judiciary**

for its hearing on

Improving the Patent System to Promote American Innovation and Competitiveness

held on

October 29, 2013

**David French**  
Senior Vice President,  
Government Relations

On behalf of:

National Retail Federation  
325 7th Street, N.W., Suite 1100  
Washington, D.C. 20004  
(202) 783-7971  
[www.nrf.com](http://www.nrf.com)

Chairman Goodlatte, Ranking Member Conyers and Members of the House Judiciary Committee, on behalf of the National Retail Federation (NRF) and its divisions Shop.org and the National Council of Chain Restaurants, I appreciate the opportunity to submit this written statement to the Committee in connection with its hearing entitled "Improving the Patent System to Promote American Innovation and Competitiveness" held on October 29, 2013.

As the world's largest retail trade association and the voice of retail worldwide, NRF represents retailers of all types and sizes, including chain restaurants and industry partners, from the United States and more than 45 countries abroad. Retailers operate more than 3.6 million U.S. establishments that support one in four U.S. jobs – 42 million working Americans. Founded in 1996, Shop.org's 600 members include the 10 largest online retailers in the U.S. and more than 60 percent of the *Internet Retailer* Top 100 E-Retailers. The National Council of Chain Restaurants, a division of the National Retail Federation, has worked to advance sound public policy that serves restaurant businesses and the millions of people they employ for over 40 years. NCCR members include the country's most respected quick-service and table-service chain restaurants. Contributing \$2.5 trillion to annual GDP, retail is a daily barometer for the nation's economy. Retailers create opportunities for life-long careers, strengthen communities at home and abroad, and play a leading role in driving innovation. Learn more at [www.nrf.com](http://www.nrf.com).

Patent trolls have taken advantage of brick and mortar stores, e-commerce sites, and chain restaurants by exploiting the end users' inexperience in the traditional patent community through litigation and vague and broad demand letters. We are encouraged that Members of the Judiciary Committee recognize this abuse on Main Street businesses and the negative impact it has on our economy. When retailers estimate the costs involved in litigating through judgment, they will often settle because they simply do not have the resources to see it through. The Innovation Act, H.R. 3309, covers important facets of litigation reform which will take away the trolls' ability to run up legal bills, a strategy often used against retailers. NRF appreciates continued congressional attention to patent troll abuse, and H.R. 3309 is a thoughtful step forward to combat this serious and growing problem.

Patent trolls account for close to half of all patent lawsuits in the United States, and their suits cost the economy tens of billions of dollars a year. According to a Boston University study, patent trolls cost businesses \$29 billion in 2011 alone. Patent trolls force businesses to spend between \$350,000 and \$3 million on discovery for each lawsuit.<sup>1</sup> These lawsuits hamper technological innovation and adoption, crowd our court system, inhibit job creation, and ultimately drive up costs for retailers and prices for consumers.

The majority of these lawsuits are against retailers and other small businesses, 55% of whom make \$10 million or less annually. Additionally, in 2012, more non-technology companies than technology companies were sued by patent trolls.<sup>2</sup> Patent trolls are increasingly targeting traditional brick-and-mortar merchants, e-commerce companies, and chain restaurants alike. Trolls target retailers because, as end users of technology, they are more numerous than

<sup>1</sup> James E. Besson and Michael J. Muerer, "The Direct Costs from NPE Disputes" Boston Univ. School of Law, Law and Economics Research Paper No. 12-34, June 28, 2012.

<sup>2</sup> Colleen Chien, "Patent Trolls by the Numbers," Patently-O, March 14, 2013. <http://www.patentlyo.com/patent/2013/03/chien-patent-trolls.html>

manufacturers and suppliers, and therefore are more profitable to the trolls. Trolls also know that retailers have less technological expertise to defend the allegedly infringing products. Retailers of all sizes operate on thin profit margins and do not have the resources to fight back.

As primary targets of the trolls, retailers seek an effective resolution to this abusive patent litigation strategy by trolls. Specifically, retailers are encouraged by legislative language in the Innovation Act that proposes to permit stays of lawsuits against end-users in cases where the manufacturer agrees to fight the patent suit on behalf of its customers. If manufacturers are able to intervene on behalf of their customers more reliably, the trolls' incentive to target retailers and other end users declines. We look forward to continuing to work with Chairman Goodlatte and Members of the Judiciary Committee to improve this language and better effectuate the intended goal of addressing abusive suits against end-user customers.

In addition to the growing number of patent troll lawsuits for retailers' and restaurants' use of cutting-edge technology and innovative services, lawsuits centered on practical business applications are on the rise as well. Recently, one troll filed suit against over a dozen retailers on a business method patent for conducting business over the Internet. E-commerce represented \$70 billion in the second quarter of 2013<sup>3</sup>, and claims of this nature will significantly hamper the future of the retail industry.

The Innovation Act makes important changes to the existing covered business method patent program, giving retailers an added tool in fighting back against patent trolls. Businesses in the financial services industry have effectively used the program's post-grant review at the United States Patent and Trademark Office established in Section 18 of the America Invents Act, and expansion of the program beyond the financial services industry would enable retailers a more economical and efficient option to fighting off patent suits rather than litigating.

Litigation is not the only problem facing retailers and chain restaurants when it comes to patent trolls. Trolls also send deceptive patent infringement letters demanding a licensing fee with no intention to ever file a lawsuit. Retailers often settle these nuisance claims because it is much more expensive for a retailer to consult with an attorney to determine the merits of the claim than it is to settle. Knowing this, trolls prey on retailers and send these vague and intimidating letters *en masse*. It is important to the retail community that legislation addressing patent litigation reform also addresses the misleading correspondence trolls use.

Combating the rise of patent trolls is a top priority for retailers, and we appreciate the work the Members of the Committee have done to help address the trolls' abusive litigation and tactics. Retailers look forward to continuing to work with policymakers to pass effective legislation which will provide them relief from patent trolls.

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<sup>3</sup> *E-Commerce Sales*. Retail Insight Center, National Retail Federation Foundation. Available at [http://research.nrfoundation.com/Default.aspx?pg=46#\\_Uin7WDczD\\_GJ](http://research.nrfoundation.com/Default.aspx?pg=46#_Uin7WDczD_GJ).



Congressman Bob Goodlatte  
2309 Rayburn HOB  
Washington, D.C. 20515

Dear Chairman Goodlatte,

M•CAM is an innovation focused merchant and investment banking firm that specializes in the financing, sale, and qualitative analysis of intangible assets including all intangibles defined in the Uniform Commercial Code §9 (U.C.C. §9). These intangible assets include patents and trademarks. It is important to identify quality intangible assets because they are uniformly included as collateral for senior secured financial transactions in amounts exceeding \$4 trillion in the U.S. alone. Low quality assets act as counterfeit currency and must be identified and eliminated. Therefore, we have developed internal off-the-shelf software to help us determine the uniqueness, quality and commercial viability of these assets. As you are aware from my previous testimony to your Committee, this software has already inspired considerable review and reform of the U.S. and international patent regimes.

As a financial entity, we have experience in the risk underwriting and actuarial treatment of these intangible assets. Diligence on and determinations of the transferability of such properties is a critical step in the further development and utilization of the innovation asset marketplace.

One of the best ways to perform this diligence starts at the base level by identifying assets attached to financial instruments incorporating the U.C.C. §9 General Intangibles Lien or by identifying individual properties in a specific lien.

Therefore, we support this bill and the corresponding studies because they aim to bring quality metrics into the patent system and mitigate abuses by non-practicing entities.

We see positive commercial benefits flowing from the ability to accurately catalogue, trace, record, and analyze the status of liens on these properties. This function, well established in real estate markets for decades, should become a routine part of intangible asset transactions in the secondary markets.

As such, there are at least two key areas of examination which could be included as part of the GAO and USPTO studies in conjunction with this bill.

**GAO Study: Improving Patent Quality Using Off-the-Shelf Software**

Recommendation to include the M•CAM DOORS™ off-the-shelf software platform:  
Unstructured Data Collection, Processing, and Analysis

M•CAM, Inc. and its predecessor, Mosaic Technologies, developed and deployed sophisticated unstructured data capture, dynamic analyte rendering, analysis, and actuarial-modeling systems to enable regulated financial institutions and government agencies to assess asymmetric economic and intelligence risks. This suite of code, content, and visualization technology is organized under M•CAM's DOORS™ software. Leveraging advanced data-capture and rendering technologies derived from intent-based communication modeling, high degrees of content uploading and updating capabilities are enabled. These include:

- real-time latent network association identification;
- multi-modal, multi-lingual, multi-format, real-time data association and rendering;
- intent-based communications collection targeting; and,
- intent-based analysis and actuarial planning.

**Innovative Intent-Based Communications Analysis**

This unique technology also affords a number of other highly beneficial opportunities. Most notable among these is the ability to approach the area of metaphor detection and replacement in written documents. It answers questions of how to deal with the "meaning" of expressions when the literal word-to-word translation is awkward or entirely misses the point. Using a linguistic genomic algorithm, M•CAM DOORS™ software allows a user to input data into a query and have an output where the intent conveyed in the communication is more accurate than a literal translation effort. Applied to patents, this technology acts as a "plagiarism detector". It identifies likelihood of word choice and recognizes when text has been copied or specific keywords have been replaced to avoid detection by keyword classification searches. The technology helps identify not only how unique a word, concept, or entire patent document is, but also identifies the intent behind what was written. Were the writers trying to hide language, copy an idea, or truly be novel? As an alternative to keyword search techniques and conceptual clustering techniques, M•CAM's DOORS™ software and linguistic genomics technology have capabilities that would significantly improve patent issuing quality within and outside of class code identification. As such, it is vital to understand how this software, currently in its seventh generation, could be applied to the USPTO examination process to improve quality.

**USPTO Study on Secondary Markets – General Intangibles Liens**

Regarding transfer of intangible assets, particularly in cases dealing with Real Party In Interest, it is important to determine ownership of assets. Identifiable asset ownership and perfection of title are required for secondary purchase and transfer markets to operate efficiently. Ownership does not stop at declaration on documentation as often, banks, lenders and other financial institutions place liens on assets using U.C.C. §9 General Intangibles liens. Until assets are released from these liens, the financial institution maintains interest and control for secondary markets purposes. Therefore, the USPTO study could consider the U.C.C. §9 reach (language below) and how it affects activities in secondary markets.

"General Intangibles" shall mean, collectively, with respect to each Pledgor, all "general intangibles," as such term is defined in the UCC, of such Pledgor and, in any event, shall include (i) all of such Pledgor's rights, title and interest in, to and under all Contracts and insurance policies (including all rights and remedies relating to monetary damages, including indemnification rights and remedies, and claims for damages or other relief pursuant to or in respect of any Contract), (ii) all know-how and warranties relating to any of the Pledged Collateral, (iii) any and all other rights, claims, choses-in-action and causes of action of such Pledgor against any other person and the benefits of any and all collateral or other security given by any other person in connection therewith, (iv) all guarantees, endorsements and indemnifications on, or of, any of the Pledged Collateral, (v) all lists, books, records, correspondence, ledgers, printouts, files (whether in printed form or stored electronically), tapes and other papers or materials containing information relating to any of the Pledged Collateral, including all customer lists, identification of suppliers, data, plans, blueprints, specifications, designs, drawings, appraisals, recorded knowledge, surveys, studies, engineering reports, test reports, manuals, standards, processing standards, performance standards, catalogs, research data, computer and automatic machinery software and programs and the like, field repair data, accounting information pertaining to such Pledgor's operations or any of the Pledged Collateral and all media in which or on which any of the information or knowledge or data or records may be recorded or stored and all computer programs used for the compilation or printout of such information, knowledge, records or data, (vi) all licenses, consents, permits, variances, certifications, authorizations and approvals, however characterized, now or hereafter acquired or held by such Pledgor, including building permits, certificates of occupancy, environmental certificates, industrial permits or licenses and certificates of operation and (vii) all rights to reserves, deferred payments, deposits, refunds, indemnification of claims and claims for tax or other refunds against any Governmental Authority.

"Intellectual Property Collateral" shall mean, collectively, the Patents, Trademarks, Copyrights, Intellectual Property Licenses and Goodwill.

"Intellectual Property Licenses" shall mean, collectively, with respect to each Pledgor, all license and distribution agreements with, and covenants not to sue,



any other party with respect to any Patent, Trademark or Copyright or any other patent, trademark or copyright, whether such Pledgor is a licensor or licensee, distributor or distributee under any such license or distribution agreement, together with any and all (i) renewals, extensions, supplements and continuations thereof, (ii) income, fees, royalties, damages, claims and payments now and hereafter due and/or payable thereunder and with respect thereto including damages and payments for past, present or future infringements or violations thereof, (iii) rights to sue for past, present and future infringements or violations thereof and (iv) other rights to use, exploit or practice any or all of the Patents, Trademarks or Copyrights or any other patent, trademark or copyright.

"Intercompany Notes" shall mean, with respect to each Pledgor, all intercompany notes described in Schedule 11 to the Perfection Certificate and intercompany notes hereafter acquired by such Pledgor and all certificates, instruments or agreements evidencing such intercompany notes, and all assignments, amendments, restatements, supplements, extensions, renewals, replacements or modifications thereof to the extent permitted pursuant to the terms hereof.

"Patents" shall mean, collectively, with respect to each Pledgor, all patents issued or assigned to, and all patent applications and registrations made by, such Pledgor (whether established or registered or recorded in the United States or any other country or any political subdivision thereof), together with any and all (i) rights and privileges arising under applicable law with respect to such Pledgor's use of any patents, (ii) inventions and improvements described and claimed therein, (iii) reissues, divisions, continuations, renewals, extensions and continuations-in-part thereof and amendments thereto, (iv) income, fees, royalties, damages, claims and payments now or hereafter due and/or payable thereunder and with respect thereto including damages and payments for past, present or future infringements thereof, (v) rights corresponding thereto throughout the world and (vi) rights to sue for past, present or future infringements thereof.

"Trademarks" shall mean, collectively, with respect to each Pledgor, all trademarks (including service marks), slogans, logos, certification marks, trade dress, uniform resource locations (URLs), domain names, corporate names and trade names, whether registered or unregistered, owned by or assigned to such Pledgor and all registrations and applications for the foregoing (whether statutory or common law and whether established or registered in the United States or any other country or any political subdivision thereof), together with any and all (i) rights and privileges arising under applicable law with respect to such Pledgor's use of any trademarks, (ii) reissues, continuations, extensions and renewals thereof and amendments thereto, (iii) income, fees, royalties, damages and payments now and hereafter due and/or payable thereunder and with respect thereto, including damages, claims and payments for past, present or future infringements thereof, (iv) rights corresponding thereto throughout the world and (v) rights to sue for past, present and future infringements thereof.

"Copyrights" shall mean, collectively, with respect to each Pledgor, all copyrights (whether statutory or common law, whether established or registered in the United States or any other country or any political subdivision thereof, whether registered or unregistered and whether published or unpublished) and all copyright registrations and applications made by such Pledgor, in each case, whether now owned or hereafter created or acquired by or assigned to such Pledgor, together with any and all (i) rights and privileges arising under applicable law with respect to such Pledgor's use of such copyrights, (ii) reissues, renewals, continuations and extensions thereof and amendments thereto, (iii) income, fees, royalties, damages, claims and payments now or hereafter due and/or payable with respect thereto, including damages and payments for past, present or future infringements thereof, (iv) rights corresponding thereto throughout the world and (v) rights to sue for past, present or future infringements thereof.

"UCC" shall mean the Uniform Commercial Code as in effect from time to time in the State of New York; provided, however, that, at any time, if by reason of mandatory provisions of law, any or all of the perfection or priority of the Collateral Agent's and the Secured Parties' security interest in any item or portion of the Pledged Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term "UCC" shall mean the Uniform Commercial Code as in effect, at such time, in such other jurisdiction for purposes of the provisions hereof relating to such perfection or priority and for purposes of definitions relating to such provisions.

In conclusion, the study of M•CAM's DOORS™ off-the-shelf software technology could vastly improve and increase the speed of the patent quality assurance processes. U.C.C. §9 General Intangibles Liens hold a great deal of the world's intangible assets. Identifying ownership of these assets is vital to secondary market function and transferability. Thank you for considering the inclusion of these suggestions into the GAO and USPTO studies respectively.

Sincerely,



Dr. David Martin  
Chairman  
M•CAM Inc.

October 18, 2013

The Honorable Patrick J. Leahy  
Chairman, Committee on the Judiciary  
United States Senate  
224 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Bob Goodlatte  
Chairman, Committee on the Judiciary  
U.S. House of Representatives  
2138 Rayburn House Office Building  
Washington, DC 20515

The Honorable Chuck Grassley  
Ranking Member, Committee on the Judiciary  
United States Senate  
224 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable John Conyers, Jr.  
Ranking Member, Committee on the Judiciary  
U.S. House of Representatives  
2138 Rayburn House Office Building  
Washington, DC 20515

Dear Messrs. Chairmen and Ranking Members:

Thank you for the leadership that you and your committees have shown in recognizing the need to reform the nation's patent system. America's patent system must promote innovation. It must ensure that companies large and small can devote resources to productive, pro-growth innovation in the marketplace instead of burdensome, unjustified patent litigation that stifles innovation.

Yet some entities use patents to tax innovation, not to promote it. Such companies accuse innovators of infringement – not to capture the value of the patent, but to demand settlements based on what their targets would have to spend to fight them in court.<sup>1</sup> The enormous cost of defending against an infringement allegation raises particular concerns when a small business is the defendant. For these businesses, the cost of defense may exceed their revenue, all but compelling settlement regardless of the merits.

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<sup>1</sup> See, e.g., BRIAN T. YEH, CONG. RESEARCH SERV., R42668, AN OVERVIEW OF THE “PATENT TROLLS” DEBATE I (2012) (stating that “vast majority” of cases brought by patent assertion entities “end in settlements because litigation is risky, costly, and disruptive for defendants, and PAEs often offer to settle for amounts well below litigation costs to make the business decision to settle an obvious one”).

We urge you to enact the following patent litigation reform measures, which will make patent litigation more efficient in order to reduce the incentive to bring such nuisance patent suits:

- *Genuine notice pleading in patent cases.* Under current law, entities that accuse innovators of patent infringement need not tell their targets in the complaint which claims of the patent they allege are infringed or which products or services allegedly infringe. A target that does not know the precise allegations against it can run up high, wasteful legal bills pursuing arguments that turn out to be irrelevant once the accuser finally makes its case clear. Section 2 of S. 1013 and Section 2 of H.R. 2639 both aim to correct this problem.<sup>2</sup>
- *Efficient management of patent cases.* In patent cases, the judge typically issues a so-called *Markman* ruling that construes the terms in the patent claims and lets the parties know the patent's scope. Under current law, expensive discovery often happens before that ruling, even though the ruling can render much of that discovery a waste of time and money. Knowing that, some accusers use early discovery burdens to force a settlement based on the cost of litigation, rather than the merits of the case. We support proposals – such as Section 4(a) of S. 1013 and Section 5 of H.R. 2639 – that stay any unnecessary discovery until the court has told the parties what the patent covers.
- *Curbing discovery abuse in patent cases.* Some patent accusers aim to leverage the cost of excessive discovery to force a settlement that has little to do with the merits of the case. We support proposals that, like Section 4(b) of S. 1013, allow for discovery of core documentary evidence in patent cases in the usual way, but that require the accuser to pay the costs of producing any additional discovery in patent cases.
- *Patent fee shifting.* In addition, we also support appropriate fee-shifting reform. The Patent Act has included a fee-shifting provision since 1952. We encourage Congress to provide more clarity regarding patent fee shifting. Done correctly, fee-shifting reform will deter nuisance patent lawsuits, particularly those based on weak patents, and ensure fairness in the patent system.

Reforms to mitigate the estoppel bar for administrative review of issued patents are also important. In addition, the reforms above are essential because they will make patent litigation less expensive and more efficient. They will help weed out the exploitative cases in which the accuser seeks to extract a settlement based on the cost of litigation, rather than on the merits of the cases. They will have little impact on cases founded on the merits of the patented technology, ensuring that inventors can receive their due reward for their work. We look forward to working with you to ensure that these proposals succeed in freeing the patent system to fulfill its function: encouraging innovation and boosting the American economy.

<sup>2</sup> S. 1013 was introduced by Sen. Cornyn on May 22, 2013. H.R. 2639 was introduced by Reps. Farenthold and Jeffries on July 10, 2013.

Sincerely,

ADTRAN, Inc.  
Huntsville, Alabama

American Consumer Institute  
Washington, DC

Apple Inc.  
Cupertino, California

Application Developers Alliance  
Washington, DC

Avaya Inc.  
Santa Clara, California

BlackBerry Limited  
Irving, Texas

BSA | The Software Alliance  
Washington, DC

Ciena Corporation  
Hanover, Maryland

Cisco Systems, Inc.  
San Jose, California

Coalition for Patent Fairness  
Washington, DC

Consolidated Communications  
Mattoon, Illinois

Consumer Action  
Washington, DC

Consumer Electronics Association  
Arlington, Virginia

DIRECTV  
El Segundo, California

DISH Network  
Englewood, Colorado

Dropbox, Inc.  
San Francisco, California

eBay Inc.  
San Jose, California

Electronic Frontier Foundation  
San Francisco, California

Engine  
San Francisco, California

Entertainment Software Association  
Washington, DC

Facebook  
Menlo Park, California

FairPoint Communications, Inc.  
Charlotte, North Carolina

Ford Motor Company  
Dearborn, Michigan

Frontier Communications Corporation  
Stamford, Connecticut

Google Inc.  
Mountain View, California

Groupon, Inc.  
Chicago, Illinois

GVTC Communications  
New Braunfels, Texas

Hawaiian Telcom  
Honolulu, Hawaii

Hewlett-Packard Company  
Palo Alto, California

HTC America  
Bellevue, Washington

IBM Corporation  
Armonk, New York

Juniper Networks, Inc.  
Sunnyvale, California

Limelight Networks, Inc.  
Tempe, Arizona

LinkedIn  
Mountain View, California

MediaFire  
Houston, Texas

Meetup, Inc.  
New York, New York

Microsoft Corporation  
Redmond, Washington

National Retail Federation  
Washington, DC

NCTA – The National Cable & Telecommunications Association  
Washington, DC

Netflix, Inc.  
Los Gatos, California

New York Tech Meetup  
New York, New York

North State Communications  
High Point, North Carolina

NTCA – The Rural Broadband Association  
Arlington, Virginia

Oracle  
Redwood City, California

Personal Democracy Media  
New York, New York

Public Knowledge  
Washington, DC

QVC, Inc.  
West Chester, Pennsylvania

Rackspace  
San Antonio, Texas

Red Hat, Inc.  
Raleigh, North Carolina

Safeway Inc.  
Pleasanton, California

SAS Institute Inc.  
Cary, North Carolina

Shenandoah Telecommunications Company  
Edinburg, Virginia

Southwest Texas Telephone Company  
Rocksprings, Texas

TechAmerica  
Washington, DC

Twitter, Inc.  
San Francisco, California

USTelecom Association  
Washington, DC

Verizon Communications Inc.  
New York, New York

VIZIO, Inc.  
Irvine, California

Waterfall Mobile, Inc.  
San Francisco, California



Windstream Communications  
Little Rock, Arkansas

XO Communications  
Herndon, Virginia

cc: Members of Senate and House Committees on the Judiciary

Statement of

Judge Paul R. Michel (Ret.)

Prepared for the hearing on

“H.R. 3309: Improving the Patent System to Promote American Innovation and Competitiveness”

Before the  
House Committee on the Judiciary

October 29, 2013  
10:00 a.m., 2141 Rayburn

Mr. Chairman and Members of the Committee:

The Committee's effort to increase efficiency in patent litigation is commendable. I especially appreciate the collaboration to date with all the stakeholders and know it will continue as the bill moves forward in the legislative process.

The importance of improving, but not hobbling, patent infringement suits cannot be overstated. That is as true today as at the country's founding. Madison and the other founders rated patents so highly that they put the authority and duty of Congress to protect inventors' and authors' rights into the U.S. Constitution in Article I, Section Eight, Clause Eight. In fact, they listed it even before the power and obligation to raise an Army and Navy.

Subsequent history proved the founders' prescience, for economic historians attribute much of the economic growth and technological advance of the last 223 years to the strength of patents. From a poor, backward, rural nation, America emerged to lead the world in invention, surpassing all other economic and industrial powers. In the 20th century, nearly all of the 100 most important breakthrough inventions in the world occurred in the United States, and most of these under the incentive of patents.

In the present century, however, the patent system has flagged. Why? First, the rapid and ever increasing numbers of patent applications, coupled with an exponential increase in the technological sophistication of patent applications, have stressed the resources for the Patent and Trademark Office (PTO) and the Federal courts, the main entities charged with enforcing patent rights. Consequently, enormous backlogs developed, causing inordinate delays. Getting a patent can now take three, four, or even five years, and enforcing it in court even longer. With the pace of technological advances and business activity in today's global market, such delays reduce revenues, sap economic vitality, hinder job creation and compromise American competitiveness. These delays should not be tolerated. Along with excessive delays, excessive cost and disruption and uncertainty plague the system, especially in the courts. These are the primary systemic problems and need effective remedy if the U.S. is to remain a major economic power into the future.

Yet the bill at hand focuses instead on the problem of frivolous lawsuits, which while important is, according to the GAO study, secondary. Measured by outcomes in fully-litigated cases, frivolous cases comprise less than 10% of all patent cases; more importantly, the large majority of suits are by manufacturers, not non-practicing entities (NPEs). Still, abuses do occur, not only in the filing of frivolous lawsuits but also in costly abuses by both sides related to discovery and motions practice, all of which warrant strong remedy.

The challenge for your Committee then is how to curb truly abusive behaviors by some litigants without encumbering the enforceability of valid and infringed patents, and without interfering with the management of individual suits by the judges presiding over them.

Although the bill contains many provisions that are entirely salutary, I see two fundamental flaws in the case management provisions that will produce dire consequences in their actual implementation.

First, provisions concerning pleadings, fees, discovery and stays all multiply the issues requiring adjudications, adding measurably to the already excessive complexity of such cases and thus increasing still further the harmful delays, costs, disruptions and uncertainties. For example, the stringent pleading requirements of Section 3 for the "initial Complaint" will lead to motions to dismiss, now very rare, in almost every case. The parties must then litigate and the judge must decide if any missing information was "known" to the patent owner or, if not known, was nevertheless "reasonable accessible." And if the Complaint is dismissed, it can be refiled, perhaps with only some of the gaps filled, possibly leading to another round of dismissal litigation.

Complaints typically allege infringement of multiple patents, each with multiple claims, each with many limitations and often against multiple products. Consider a case with 5 patents, each with 5 asserted claims, each with 5 limitations against 5 products. Such numbers are not fanciful. Under the bill, if enacted, the initial Complaint must link every limitation to a feature of every accused product, specifying as well whether infringement is literal or equivalent, whether direct or indirect, and in the latter case, additional details are required. Do the math and you see such a complaint must contain hundreds, likely thousands, of facts in a huge matrix. Seldom will every box in the matrix be filled. Under the proposed bill, any omission will result in dismissal, leading to much wasteful litigation, the very thing the bill seeks to minimize. And what if discovery reveals additional infringing products? Can the complaint not be amended, as at present?

The fee-shifting provision suffers the same flaw: it would require in every case adjudication of these issues, (likely following motions, briefing, argument and possible discovery and depositions): whether the loser's "position" was "substantially justified" and whether imposing fees and costs would in any event work an "injustice."

Not only does this add more cost and delay, but usually it will be futile. My 22 years of experience judging over a thousand patent appeals suggest that in a large majority of cases the non-prevailing party's position, while ultimately unsuccessful, was nevertheless indeed substantially justified. Most suits involve close cases. Open and shut disputes usually are resolved privately by the parties without filing suit.

Patent suits already have too many issues, too many motions, too much cost and delay. The bill, as written, would further increase all these ills. And it would do so without actually helping those defendants wrongly accused of infringement. The proposed provisions would seldom end a frivolous suit on a motion to dismiss and seldom recover fees.

If the objective of the pleading requirements for the initial Complaint is an early, inexpensive end to a frivolous suit, that end can be better achieved by early summary judgment after very limited discovery on the single most likely case-dispositive issue, whether eligibility, anticipation, obviousness, inadequate disclosure or non-infringement. Trial judges already do so routinely. They can best identify such issues with the help of counsel. Leaving such matters to judges and litigators is more effective.

The Judicial Conference has already recommended that the much-criticized Form 18 be abolished, and the Supreme Court has already required reasonably specific factual allegations in the *Twombly* and *Iqbal* decisions. Motions to dismiss a Complaint for "failure to state a claim on which relief may be granted" would seldom succeed, just as under current law, because the Plaintiff can usually add whatever allegations are required. Whether he can prove them sufficiently to survive summary judgment or convince a jury is another matter. And, a motion to dismiss a Complaint must be judged on its face and without regard to other documents or later-introduced evidence.

In short, the initial Complaint is not the best stage to try to screen out a frivolous suit.

As to making the non-prevailing party pay the other side's reasonable fees and expenses, this too enlarges the litigation, not only on new issues like "substantially justified," but also on what the fees and costs are and whether they are "reasonable." Often this will require a separate trial after the trial on the merits of infringement and validity. Again, delays and litigation costs will often be further increased, although already excessive. If fees are seldom shifted, then the prevailing party will have to spend more and still fail to get compensation. And what of mixed results? Does the court assess who is the prevailing party, issue by issue?

Judges already can and do shift fees, usually against the plaintiff in an unsubstantiated case. Perhaps they should do so even more frequently. The bill could help by simply eliminating from Section 285 of the Patent Act the pre-requisite of finding the case "exceptional." That would be a better remedy.

The joinder provision similarly adds new issues, expanding the suit and increasing its costs because it requires adjudication of whether the Plaintiff's only "interest" in the patent is for "asserting such patent claim in litigation." Most non-practicing entities also conduct licensing activities separate from litigating, so the issue will often be close and closely contested. The question whether the party to be joined qualifies as an "interested party" may also be close.

The proposed discovery limits also interject new issues, such as whether the requested discovery is actually "necessary" to the resolution of a motion brought prior to a claim construction ruling. Since many judges treat Markman and summary judgment simultaneously, the issue of necessity will arise in a large portion of cases.

Likewise, the provision on lifting stays in suits against "customers" adds issues as to whether the action against the covered manufacturer will or will not "resolve a major issue" in the suit against the customer and whether retaining the stay "unreasonably prejudices" and would be "manifestly unjust" to the patent owner. If the Courts were allowed to exercise the broad discretion the law presently affords, these issues would be seldom arise. But since the proposed act mandates a stay unless the patent owner establishes the above prerequisites to lifting the stay, the issues are likely to be routinely adjudicated, adding delay and cost to both parties.

The second fundamental flaw of the bill is that the "one size fits all" premise of the case management provisions unfairly burdens all patent owners, not just the small segment of non-practicing entities the bill is targeting. A better and fairer approach would be for the bill to deter or punish the small segment of non-practicing entities engaged in abusive litigation instead of harnning all patent owners. Making suits longer, more complex and expensive for defendants and plaintiffs alike defeats the very purpose of the bill. More importantly, making valid and infringed patents more difficult and expensive to enforce weakens the value of all patents and reduces their power to incentivize the investments so necessary for innovation-driven growth.

Regarding case management, it should also be noted that the Patent Pilot Program created by Congress is now well established and operating effectively. In addition to the beneficial specialization of the volunteer judges in 14 districts, the program has spawned new management techniques. Other developments include supervision of related cases, consolidated for pre-trial purposes, by the Judiciary's Panel on Multi-District Litigation. The Federal Circuit and the Federal Judicial Center have conducted advanced training for pilot program judges and other trial judges. Some twenty districts have now developed patent case management rules on a district-wide basis and many judges in other districts do so using pre-trial scheduling orders. Perhaps the most promising development of all is the increased use of single-issue summary judgment, which saves enormously in terms of costs and delays. Post-issuance reviews under the America Invents Act are weeding out improperly granted patents, ending lawsuit based on them. All these developments are continuing to improve efficiency in patent litigation.

Although beneficial provisions in the bill should remain and need no discussion by me, the Committee must ask itself if the proposed case management mandates will not, on balance, do more harm than good.

Finally, fairness as well as efficiency is at stake. The bill abolishes Section 145, the long-standing right of an applicant to go to the district court to present new and live evidence on patentability. This right is critical in certain cases because the PTO lacks the power of subpoena to obtain third party evidence that district courts have. And it lacks means to hear live testimony, as district courts do. In many cases credibility is put in issue. How better to test it than through live testimony before the fact-finder with cross examination?

#### CONCLUSION

The bill's inclusion of so many mandates that many judges and patent applicants and owners and litigators view as objectionable raises the question whether a more narrowly-tailored approach to the limited but real litigation abuses would not be better and fairer. At the very least, I submit, the Committee should conduct a series of hearings that include trial judges and senior litigators before acting on this proposed legislation.

I thank the Committee for the opportunity to provide the above observations to assist the Committee improve the bill as it seeks to improve patent infringement suits.



October 29, 2013

## Targeted Reforms Needed to Protect Community Banks from Patent Abuse

On behalf of the Independent Community Bankers of America (ICBA) and the nearly 7,000 community banks we represent, thank you for convening this important hearing on "Improving the Patent System to Promote American Innovation and Competitiveness." The purpose of this submission is to explain the unique perspective of community banks and to provide recommendations based solely on that perspective. ICBA is an active participant in a diverse coalition representing the greater financial services industry and strongly supports their concerns as well. We appreciate the opportunity to put forth our views on the issue of abusive patent litigation brought by patent assertion entities (PAEs), popularly referred to as "patent trolling," which assert infringement of poor-quality business-method patents against legitimate businesses, including many community banks.

According to a recent study, direct costs associated with litigation brought by PAEs are substantial, totaling an estimated \$29 billion in accrued litigation and non-litigation cost in 2011.<sup>1</sup> Managing these aggressive and frivolous patent lawsuits has become an expensive distraction for an increasing number of community banks that often lack the financial and legal resources to properly dispute these claims. These claims sap valuable monetary, time and legal resources from community banks, and exhaust resources that would otherwise be directed toward serving the financial needs of their customers. PAEs often use the settlements to build considerable war chests to assert more patent claims against other legitimate small businesses, including community banks.

ICBA appreciates the efforts of Congress in 2011 to pass the Leahy-Smith America Invents Act, which establishes a transitional proceeding at the Patent and Trademark Office (PTO), known as a Section 18 proceeding, to re-examine the validity of certain low-quality business method patents. We are encouraged by the initial efforts of the PTO to "stand-up" Section 18 and are confident that, if made permanent, it will mature into a valuable tool to combat these frivolous lawsuits. However, PAEs still pose a significant threat to community banks. We urge Congress to strengthen the current Section 18 proceeding by making it more accessible for community banks and to provide relief from PAE "demand letters." Congress should also toughen current law to make it clear that vendors must provide appropriate warranties and indemnification for patents related to products and services they provide to community banks.

### Demand Letters

Community bankers across the country have seen a dramatic increase in the number of demand letters they have received from law firms representing PAEs. The typical letter states that the community bank is in violation of a patent or a suite of patents held by the PAE. Oftentimes the PAE is willing to settle or sell a sub-license, often a "limited or one-time offer," to the community bank for using the technology in question. These letters are often accompanied by a list of patents from the PTO but contain no description of what the actual patents are or how the community bank is in violation. The community banker is then forced to choose between costly and time-consuming litigation to challenge the patent or compliance with the demand letter, however frivolous it is. Compliance with the demand letter strengthens the PAE's incentive to target additional community banks to extract exorbitant and fraudulent fees.

<sup>1</sup> The Direct Costs from NPE Disputes by James Bessen and Michael J. Meurer (Boston University School of Law) 6/22/12

One Mission. Community Banks.

1615 L Street NW, Suite 900, Washington, DC 20036 • 202-659-8111 • Fax 202-659-9216 • [www.icba.org](http://www.icba.org)

To address this issue, ICBA urges Congress to strengthen the current Section 18 proceeding by making it more accessible for community banks. We commend Judiciary Committee Chairman Goodlatte and the original cosponsors of H.R. 3309, the Innovations Act of 2013, for including an ICBA-advocated provision in the bill that provides the PTO with discretion to waive the costly filing fee required to initiate a Section 18 proceeding. Absent a waiver, it would be cost prohibitive for community banks to petition the PTO in this manner.

Community banks are also seeking clarity whether receipt of a demand letter in itself provides the recipient with sufficient grounds to open a Section 18 proceeding. To the extent that there is doubt as to what constitutes an accusation of infringement, warranting a Section 18 proceeding, Congress should clarify that a demand letter or other pre-litigation communication effectively asserts infringement thereby allowing the recipient to petition for a review proceeding based on such a communication.

Demand letters are a considerable drain on a community bank's finite resources. Any legislation that would increase the accessibility of a Section 18 proceeding to the community banking sector will bring more poor-quality business-method patents under review. Legitimate patents have nothing to fear from the Section 18 proceeding.

#### **End User Indemnification/Warranties**

Community banks often white-label products that are purchased from vendors to serve their customers. As "end-users" of these products and services community banks should not be on the hook for the infringement claims of PAEs.

Community banks are especially vulnerable to being sued because they lack the resources and market power to fairly negotiate the protections they need when contracting with large sophisticated vendors. Additionally, the vendors that provide these products and services to community banks often do not stand behind them. As a result, when a community bank is accused of infringement, the vendor, often better situated to refute the claim, sits on the sidelines and refuses to defend their customers.

To address this problem, Congress should amend current law to ensure that vendors that sell products or services to community banks provide the appropriate warranties and indemnification to protect the end users from infringement claims.

#### **Closing**

Thank you again for convening this hearing. ICBA is encouraged by the introduction of H.R. 3309, and we look forward to working with Chairman Goodlatte and the rest of the Judiciary Committee to address the proliferation of warrantless lawsuits brought by PAEs against legitimate small businesses including many community banks.

One Mission. Community Banks.

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October 28, 2013

The Honorable Bob Goodlatte  
Chairman  
Committee on the Judiciary  
U.S. House of Representatives  
Washington, D.C. 20515

The Honorable John Conyers  
Ranking Member  
Committee on the Judiciary  
U.S. House of Representatives  
Washington, D.C. 20515

**Re: Tomorrow's Hearing on H.R. 3309: Improving the Patent System to Promote American Innovation and Competitiveness**

Dear Chairman Goodlatte and Ranking Member Conyers:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only national trade association that exclusively represents the interests of our nation's federal credit unions, I write in conjunction with tomorrow's hearing entitled, *H.R. 3309: Improving the Patent System to Promote American Innovation and Competitiveness*. We appreciate the committee's attention to our nation's patent system, and support several reforms found in the bipartisan *Innovation Act* (H.R. 3309).

The *Innovation Act* (H.R. 3309) successfully builds upon the *Leahy-Smith America Invents Act* [P.L. 112-29] to ensure a more efficient patent system, including NAFCU supported language that would help protect credit unions from baseless litigation involving questionable business method patents. We urge the Committee to keep such provisions (including enhanced pleading standards and limits on discovery) intact moving forward. It would provide important relief to credit unions by making it faster and more cost effective to prove that a patent is of poor quality in instances where it leads to frivolous infringement litigation.

A growing number of credit unions are reporting receipt of demand letters from law firms representing "patent trolls" claiming patent infringement with an option to settle or face litigation. The Transitional Program for the Review of Covered Business Method Patents (CBM program) is an important tool for credit unions in seeking fairness in such situations and should be expanded to include the pre-litigation process. Unfortunately, the current process is cost prohibitive, particularly for smaller credit unions. In addition to provisions discouraging such a practice to begin with, the *Innovation Act* (H.R. 3309) includes a fee-waiver provision that would give the Patent Office discretion to waive such a fee, increasing the opportunity for small institutions to protect themselves from this organized racket.



Lastly, we appreciate the legislation's attention to the CBM program. In addition to giving the U.S. Patent Office fee waiver authority described above, the *Innovation Act* (H.R. 3309) removes the sunset provision in current law that would lead to the end of the CBM program. While NAFUCU supports this effort, we would note that this section also limits the scope of patents that can be reviewed to those first to invent patents issued before 2011. Given how problematic this issue has been for not-for-profit credit unions, NAFUCU believes that arbitrarily limiting the program could lead to additional and unnecessary burden on our members. We are hopeful that this issue can be addressed moving forward.

On behalf of our nation's credit unions and their 96 million member owners, we thank you for holding this important hearing. The *Innovation Act* (H.R. 3309) undoubtedly makes the patent review process better for credit unions and we look forward to working with the committee as the legislative process moves forward. If my staff or I can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact myself, or NAFUCU's Director of Legislative Affairs, Jillian Pevo, at (703) 842-2836.

Sincerely,



Brad Thaler  
Vice President of Legislative Affairs

cc: Members of the House Committee on the Judiciary

October 29, 2013

The Honorable Bob Goodlatte  
Chairman  
Committee on the Judiciary  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Chairman Goodlatte,

We commend you for introducing HR 3309, the “Innovation Act of 2013,” legislation to address the continued onslaught of frivolous patent litigation brought by non-practicing entities (“NPEs”). Following the successful implementation of the America Invents Act of 2011 (“AIA”), the Innovation Act holds the promise to further constrain the abuse of the patent system by NPEs by lowering the overall costs of litigation (for both parties) and bringing much needed transparency to the space. We look forward to working with you to enhance this legislation to accomplish these important goals.

Financial institutions of every size have been targeted by NPEs, often referred to as patent trolls, who in most cases assert low-quality business method patents through vaguely worded demand letters or intentionally vague complaints. Indeed, patent trolls’ relatively recent focus on credit unions and community banks threatens to pose additional, unwarranted costs on Main Street lenders and the communities they serve. Components of the Innovation Act could help alter the business model of trolls by removing some of their financial incentive to assert low-quality patents in the hope of quick settlements.

We particularly appreciate your focus on enhanced pleading standards and limits on discovery. Enhanced pleading standards will provide much-needed transparency related to the merits or weaknesses of a lawsuit. If plaintiffs are required to specifically identify the accused product as well as asserted claims and factual basis for infringement, would-be defendants will be better able to make determinations regarding licensing or litigation. The limitations on discovery help balance the costs of litigation. In addition, the focus around core documents could save would-be defendants from exorbitant costs related to document production for documents beyond in the needs of any given proceeding. Discovery should not require defendants to provide patent trolls with an unlimited window into a company’s business operations. H.R. 3309 will help ensure that the discovery process is no longer abused.

We appreciate the attempts you have made to address the concerns of end-users. We, however, believe the legislation must go further. Financial firms of all sizes find themselves in litigation as end-users given that virtually all business method patents claim a method or process implemented through some type of technology. Because it is rare for our technology providers to voluntarily step into a suit and stand in the place of their customers, we believe that adding a “right of contribution” or “mandatory joinder” to the patent law would enable a more equitable distribution of liability between end-users and suppliers.

Finally, we appreciate your efforts to improve the Transitional Program for the Review of Covered Business Method Patents (“CBM program”), which you helped create as part of the America Invents Act of 2011. We applaud your efforts to ensure that the program is accessible to all applicants by providing the Patent and Trade Office (“PTO”) with authority to waive the program fee to accommodate community banks and credit unions. Smaller financial services providers who have fewer resources to deal with demand letters and engage in the lengthy process of fighting the merit-less litigation that patent trolls initiate, will particularly benefit from these provisions. It is imperative that financial services providers of all sizes have access to the CBM program. In that regard, it would be helpful if the Committee could clarify that a demand letter or other pre-litigation communication suggesting that infringement may have occurred shall constitute an accusation of infringement giving rise to a real and substantial controversy for purposes of a CBM program review. We have attached suggested language to accomplish this.

The legislation, however, limits patents that can be reviewed by the PTO. The bill would limit the CBM program to only those patents filed *before* the AIA – first to invent patents. This change presupposes that the patents issued between 2011 and the expiration of the program in 2018 will all be of exceptional quality and in no need of review against the best prior art. It is important to remember that the CBM program was created to ensure that patents that could not otherwise be reviewed against the best prior art (due to the bar against use and sale prior art in post-grant review) can be reviewed if the PTO determines that they are more likely than not invalid. As you know, this is an exceptionally high bar, which protects patent holders from abuse and ensures that only the lowest quality patents go through a CBM review. To arbitrarily limit the scope of the program to patents that issued before 2011 is to assume that no low-quality business method patents will issue in the future, an assumption that is not warranted given the realities of the patent-granting process. The CBM program is working as demonstrated by your desire to codify the *Versata* decision. Indeed, we believe that the sunset should be removed without qualification. To artificially constrain the program is to ensure that low-quality business method patents remain in the hands of trolls.

Thank you for your efforts to improve patent litigation and prevent its misuse. H.R. 3309, the Innovation Act is an important step forward on which we can build. We appreciate your leadership and look forward to working with you and Members of the Committee as the process moves forward.

Sincerely,


American Bankers Association  
 American Insurance Association  
 The Clearing House  
 Consumer Bankers Association  
 Credit Union National Association  
 Financial Services Roundtable  
 Independent Community Bankers of America  
 NACHA—The Electronic Payments Association  
 National Association of Federal Credit Unions  
 National Association of Mutual Insurance Companies

TO: Chairman Goodlatte  
FROM: Financial Services Patent Coalition  
ADDENDUM: Proposed Report Language  
DATE: 10/28/13

There is a lack of consensus among the financial services industry as to whether a demand letter qualifies as an accusation of infringement. As a result, we respectfully request the following language be included in the Committee report clarifying the original intent of House Committee Report 112-98 at 54:

As part of the 2011 America Invents Act, Congress created a transitional program to implement a post-grant proceeding for review of the validity of business method patents used in the practice, administration, or management of a financial product or service. As the Committee stated in the House Committee Report at the time, Congress intended that a petition to initiate a review could be granted if the petitioner is first sued for infringement, or if the petitioner is accused of infringement. See Rept. 112-98 at 54. To the extent that there is doubt as to what constitutes an accusation of infringement, the Committee clarifies its intent that a demand letter or other pre-litigation communication suggesting that infringement may have occurred shall constitute an accusation of infringement giving rise to a real and substantial controversy. It is the Committee's intent that one may petition for a review proceeding on the basis of such communication.

Thank you for your consideration.





American Institute of CPAs  
1455 Pennsylvania Avenue, NW  
Washington, DC 20004-1081

**WRITTEN TESTIMONY FOR THE RECORD  
OF  
BARRY MELANCON, PRESIDENT AND CEO  
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS**

**PUBLIC HEARING  
ON  
THE INNOVATION ACT, H.R. 3309  
October 29, 2013**

**COMMITTEE ON THE JUDICIARY  
U.S. HOUSE OF REPRESENTATIVES**

The American Institute of Certified Public Accountants (AICPA) would like to thank members of the Committee on the Judiciary for the opportunity to submit this statement for the record of the hearing on the Innovation Act, H.R. 3309, held on October 29, 2013.

The AICPA is the world's largest member association representing the accounting profession comprised of over 394,000 members in 128 countries and a 125-year heritage of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. The AICPA sets ethical standards for the profession and U.S. auditing standards for audits of private companies, nonprofit organizations, federal, state and local governments. It develops and grades the Uniform CPA Examination and offers specialty credentials for CPAs who concentrate on personal financial planning; fraud and forensics; business valuation; and information technology.

We applaud the Committee's efforts to address the increasing problem of abusive patent litigation. The AICPA has for many months urged Congress to take swift action on patent reforms as it pertains to frivolous patent litigation initiated by some Patent Holding Companies (PHCs) and Patent Assertion Entities (PAEs), more commonly known as patent trolls.

As you know, PHCs/PAEs are entities which acquire patents with a goal of finding inventors and companies that the PAE claims are infringing one or more of their patents. (It should also be noted that some patent aggregators license their aggregated patents to corporations to defend against patent litigation, not to initiate it). PAEs license patents without actually manufacturing or using the patented service or product. As President Obama has explained, these companies "don't actually produce anything themselves" and instead develop a business model to "essentially leverage and hijack somebody else's idea and see if they can extort some money out of them."

Some PAEs are bringing lawsuits against companies regarding patent infringement for mundane daily uses of technology, including document scanners, podcasts and Wi-Fi networks. Federal Trade Commission Chairwoman Edith Ramirez has noted that patent trolls file half of their lawsuits against non-tech companies that simply have IT software embedded in their products.

In the last two years, the number of lawsuits brought by PAEs has nearly tripled, and account for 62% of all patent lawsuits in America, according to a recent White House study. All told, the victims of PAEs paid \$29 billion in 2011, a 400% increase from 2005.

The bipartisan Innovation Act (H.R. 3309), builds on the reforms that were made during the last Congress in the America Invents Act. We commend Chairman Goodlatte – the measure's primary sponsor – and the bill's cosponsors for acknowledging that abuse patent litigation is a drag on our economy. As the Chairman has noted, "Everyone from independent inventors, to start-ups, to mid and large sized businesses face this constant threat."

AICPA member firms and state CPA societies are among the many small- and medium-sized businesses that have been targeted by PHCs. Many of our members report that they have received letters from licensing entities of a PHC. The letters indicate that the member has been identified as one that may be using patented technology, and that the purpose of the letter is to

begin discussions regarding the need for the purchase of a license to use the patented technology. The alleged patent infringement relates to processes and systems involving using a copier or scanner to scan and email a document to a computer or other location.

The letter also includes information that the PHC has had a positive response from the business community to its licensing program and that most businesses are interested in taking a license promptly. If the member refuses to pay a license fee (some demands are for \$1000 per employee) or ignores the letter, the PHC, via its attorney, threatens to bring legal action in federal court to enforce its patent rights, which includes attaching a draft complaint for patent infringement.

Because many smaller businesses do not have the legal resources to contest such challenges, the vast majority of PAE lawsuits are settled out of court.

In response to this growing problem – which some have characterized as litigation extortion – we favor legislative reforms to the patent system that protect off-the-shelf use by consumers and businesses, reduce costs and hurdles to defend against PAEs, increase transparency about PAEs, and shift costs to PAEs for unsuccessful litigation.

Let me discuss each of those guiding principles in greater detail.

#### Protect “off-the-shelf” use by consumers and business.

This principle, in part, aspires to force the dispute to concern the proper parties: patent owner vs. supplier (rather than the user). It would stay judicial proceedings against consumers when a) infringement suit has also been brought against a vendor, retailer, or manufacturer or b) declaratory judgment action has also been brought by a vendor, retailer, or manufacturer. And it may allow alleged infringers to potentially pool resources with others who receive similar letters and determine whether to form a common interest group or collectively leverage a common supplier.

#### More readily available challenges or defenses for small businesses / individual

This principle involves a proposal for an alternate tribunal for small business or “Main Street” customers that is cheaper and faster. To qualify, an entity would have to satisfy some qualifications of less than a given number of employees and operation of product only in an off-the-shelf use. Quicker adjudication would reduce costs to a challenger. There would be potential cost shifting to the patent owner for successful micro-entity challenge in a IPR or PGR proceeding if a suit has been initiated or a demand letter has been sent. There would be a refund of filing fees and reasonable attorney fees to the micro-entity for a successful challenge.

#### Greater transparency in the entity asserting the patents

“Real Party in Interest” provisions relating to ownership of patents would be required at the U.S. Patent Office, in court, and in demand letters. It would require disclosure of more than a holding company. This would allow recipients to better identify a patent owner and pool resources if a common real party in interest.

Cost-shifting to patent holding companies (PHC) for unsuccessful litigation.

A PHC that is a losing party would ultimately pay a defendant's costs and fees, under this principle. It would require a fine-tuned definition of "PHC" – no operations, size of company, assets, not original inventor. This would not prevent demand letter campaign activity, but there would some protection for an alleged infringer in the event a suit is filed.

Together, those four principles represent a solid foundation in reforming the patent litigation system. And we are pleased to note that several of the principles are addressed in the Innovation Act, most notably "off the shelf" use by consumers and business, transparency, and cost-shifting.

The AICPA appreciates the attention that Chairman Goodlatte, members of the committee and cosponsors of the Innovation Act have given this growing problem. The legislation would target the parts of the legal system most abused by patent trolls: the threshold for bringing a complaint, the liability and transparency of the party alleging infringement, and the cost for parties of defending against a suit.

Stopping this drain on the American economy will require swift action. Of course, no single piece of legislation will end all abuses of the patent system. But by following the four principles outlined above, as embodied in H.R. 3309, we can put a stop to the most egregious actions of PHCs.

We are pleased to support the overall intent of H.R. 3309, specifically the provisions in the legislation that pertain to the principles as outlined above. We stand ready to continue to work with Congress on this matter that is so crucial to jobs, innovation, and our economy.

Thank you.

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113TH CONGRESS  
1ST SESSION

# H. R. 3309

To amend title 35, United States Code, and the Leahy-Smith America Invents Act to make improvements and technical corrections, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

OCTOBER 23, 2013

Mr. GOODLATTE (for himself, Mr. DEFazio, Mr. COBLE, Ms. LOFGREN, Mr. SMITH of Texas, Ms. ESHOO, Mr. CHAFFETZ, Mr. BACHUS, Mr. MARINO, Mr. FARENTHOLD, and Mr. HOLDING) introduced the following bill; which was referred to the Committee on the Judiciary

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## A BILL

To amend title 35, United States Code, and the Leahy-Smith America Invents Act to make improvements and technical corrections, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Innovation Act”.

6 (b) TABLE OF CONTENTS.—The table of contents for  
7 this Act is as follows:

Sec. 1. Short title; table of contents.  
Sec. 2. Definitions.  
Sec. 3. Patent infringement actions.

Sec. 4. Transparency of patent ownership.

Sec. 5. Customer-suit exception.

Sec. 6. Procedures and practices to implement and recommendations to the Judicial Conference.

Sec. 7. Small business education, outreach, and information access.

Sec. 8. Studies on patent transactions, quality, and examination.

Sec. 9. Improvements and technical corrections to the Leahy-Smith America Invents Act.

Sec. 10. Effective date.

## 1 SEC. 2. DEFINITIONS.

2 In this Act:

3 (1) DIRECTOR.—The term “Director” means  
4 the Under Secretary of Commerce for Intellectual  
5 Property and Director of the United States Patent  
6 and Trademark Office.

7 (2) OFFICE.—The term “Office” means the  
8 United States Patent and Trademark Office.

## 9 SEC. 3. PATENT INFRINGEMENT ACTIONS.

10 (a) PLEADING REQUIREMENTS.—

11 (1) AMENDMENT.—Chapter 29 of title 35,  
12 United States Code, is amended by inserting after  
13 section 281 the following:

### 14 “§ 281A. Pleading requirements for patent infringement 15 actions

16 “(a) PLEADING REQUIREMENTS.—Except as pro-  
17 vided in subsection (b), in a civil action in which a party  
18 asserts a claim for relief arising under any Act of Con-  
19 gress relating to patents, a party alleging infringement  
20 shall include in the initial complaint, counterclaim, or  
21 cross-claim for patent infringement, unless the informa-

1 tion is not reasonably accessible to such party, the fol-  
2 lowing:

3       “(1) An identification of each patent allegedly  
4       infringed.

5       “(2) An identification of each claim of each pat-  
6       ent identified under paragraph (1) that is allegedly  
7       infringed.

8       “(3) For each claim identified under paragraph  
9       (2), an identification of each accused apparatus,  
10      product, feature, device, method, system, process,  
11      function, act, service, or other instrumentality (re-  
12      ferred to in this section as an ‘accused instrumen-  
13      tality’) alleged to infringe the claim.

14      “(4) For each accused instrumentality identi-  
15      fied under paragraph (3), an identification with par-  
16      ticularity, if known, of—

17          “(A) the name or model number of each  
18          accused instrumentality; or

19          “(B) if there is no name or model number,  
20          a description of each accused instrumentality  
21          that, when used, allegedly results in the prac-  
22          tice of the claimed invention.

23      “(5) For each accused instrumentality identi-  
24      fied under paragraph (3), an explanation of—

1           “(A) where each element of each claim  
2           identified under paragraph (2) is found within  
3           the accused instrumentality;

4           “(B) whether each such element is in-  
5           fringed literally or under the doctrine of equiva-  
6           lents; and

7           “(C) with detailed specificity, how the  
8           terms in each claim identified under paragraph  
9           (2) correspond to the functionality of the ac-  
10          cused instrumentality.

11          “(6) For each claim that is alleged to have been  
12          infringed indirectly, a description of—

13               “(A) the direct infringement;

14               “(B) any person alleged to be a direct in-  
15               fringer known to the party alleging infringe-  
16               ment; and

17               “(C) the acts of the alleged indirect in-  
18               fringer that contribute to or are inducing the  
19               direct infringement.

20          “(7) A description of the right of the party al-  
21          leging infringement to assert each—

22               “(A) patent identified under paragraph  
23               (1); and

24               “(B) patent claim identified under para-  
25               graph (2).

1           “(8) A description of the principal business of  
2           the party alleging infringement.

3           “(9) A list of each complaint filed, of which the  
4           party alleging infringement has knowledge, that as-  
5           serts or asserted any of the patents identified under  
6           paragraph (1).

7           “(10) For each patent identified under para-  
8           graph (1), whether such patent has been specifically  
9           declared as essential, potentially essential, or having  
10          potential to become essential to any standard-setting  
11          body, and whether the United States Government or  
12          a foreign government has imposed specific licensing  
13          requirements with respect to such patent.

14          “(b) INFORMATION NOT READILY ACCESSIBLE.—A  
15          party required to disclose the information described under  
16          subsection (a) shall include with such disclosure a descrip-  
17          tion of any information described under subsection (a)  
18          that is not disclosed, why such undisclosed information  
19          was not readily accessible, and the efforts made by such  
20          party to access such undisclosed information.

21          “(c) CONFIDENTIAL INFORMATION.—For good cause  
22          shown by a party required to disclose the information de-  
23          scribed under subsection (a), the court may allow certain  
24          information that the court determines to be confidential  
25          to be filed under seal.

1 “(d) EXEMPTION.—A civil action that includes a  
2 claim for relief arising under section 271(e)(2) shall not  
3 be subject to the requirements of subsection (a).”.

4 (2) CONFORMING AMENDMENT.—The table of  
5 sections for chapter 29 of title 35, United States  
6 Code, is amended by inserting after the item relating  
7 to section 281 the following new item:

“281A. Pleading requirements for patent infringement actions.”.

8 (b) FEES AND OTHER EXPENSES.—

9 (1) AMENDMENT.—Section 285 of title 35,  
10 United States Code, is amended to read as follows:

11 **“§ 285. Fees and other expenses**

12 “(a) AWARD.—The court shall award, to a prevailing  
13 party, reasonable fees and other expenses incurred by that  
14 party in connection with a civil action in which any party  
15 asserts a claim for relief arising under any Act of Con-  
16 gress relating to patents, unless the court finds that the  
17 position of the nonprevailing party or parties was substan-  
18 tially justified or that special circumstances make an  
19 award unjust.

20 “(b) RECOVERY.—If a nonprevailing party is unable  
21 to pay reasonable fees and other expenses awarded by the  
22 court pursuant to subsection (a), the court may make the  
23 reasonable fees and other expenses recoverable against any  
24 interested party joined pursuant to section 299(d).

1       “(c) COVENANT NOT TO SUE.—A party to a civil ac-  
2       tion that asserts a claim for relief arising under any Act  
3       of Congress relating to patents against another party, and  
4       that subsequently unilaterally extends to such other party  
5       a covenant not to sue for infringement with respect to the  
6       patent or patents at issue, shall be deemed to be a nonpre-  
7       vailing party (and the other party the prevailing party)  
8       for purposes of this section, unless the party asserting  
9       such claim would have been entitled, at the time that such  
10      covenant was extended, to voluntarily dismiss the action  
11      or claim without a court order under Rule 41 of the Fed-  
12      eral Rules of Civil Procedure.”.

13           (2) CONFORMING AMENDMENT AND AMEND-  
14      MENT.—

15           (A) CONFORMING AMENDMENT.—The item  
16           relating to section 285 of the table of sections  
17           for chapter 29 of title 35, United States Code,  
18           is amended to read as follows:

“285. Fees and other expenses.”.

19           (B) AMENDMENT.—Section 273 of title  
20           35, United States Code, is amended by striking  
21           subsections (f) and (g).

22           (3) EFFECTIVE DATE.—The amendments made  
23           by this subsection shall take effect on the date of the  
24           enactment of this Act and shall apply to any action  
25           for which a complaint is filed on or after that date.

1 (c) JOINDER OF INTERESTED PARTIES.—Section  
2 299 of title 35, United States Code, is amended by adding  
3 at the end the following new subsection:

4 “(d) JOINDER OF INTERESTED PARTIES.—

5 “(1) JOINDER.—In a civil action arising under  
6 any Act of Congress relating to patents, the court  
7 shall grant a motion by a party defending against an  
8 allegation of infringement of a patent claim to join  
9 an interested party if such defending party shows  
10 that the party alleging infringement has no substan-  
11 tial interest in the patent or patents at issue other  
12 than asserting such patent claim in litigation.

13 “(2) LIMITATION ON JOINDER.—The court may  
14 deny a motion to join an interested party under  
15 paragraph (1) if—

16 “(A) the interested party is not subject to  
17 service of process; or

18 “(B) joinder under paragraph (1) would  
19 deprive the court of subject matter jurisdiction  
20 or make venue improper.

21 “(3) INTERESTED PARTY DEFINED.—In this  
22 subsection, the term ‘interested party’ means a per-  
23 son, other than the party alleging infringement,  
24 that—



1           “(A) is an assignee of the patent or pat-  
2           ents at issue;

3           “(B) has a right, including a contingent  
4           right, to enforce or sublicense the patent or pat-  
5           ents at issue; or

6           “(C) has a direct financial interest in the  
7           patent or patents at issue, including the right  
8           to any part of an award of damages or any part  
9           of licensing revenue, except that a person with  
10          a direct financial interest does not include—

11           “(i) an attorney or law firm providing  
12          legal representation in the civil action de-  
13          scribed in paragraph (1) if the sole basis  
14          for the financial interest of the attorney or  
15          law firm in the patent or patents at issue  
16          arises from the attorney or law firm’s re-  
17          ceipt of compensation reasonably related to  
18          the provision of the legal representation; or

19           “(ii) a person whose sole financial in-  
20          terest in the patent or patents at issue is  
21          ownership of an equity interest in the  
22          party alleging infringement, unless such  
23          person also has the right or ability to influ-  
24          ence, direct, or control the civil action.”.

25          (d) DISCOVERY LIMITS.—

1           (1) AMENDMENT.—Chapter 29 of title 35,  
2       United States Code, is amended by adding at the  
3       end the following new section:

4   **“§ 299A. Discovery in patent infringement action**

5       “(a) DISCOVERY IN PATENT INFRINGEMENT AC-  
6       TION.—Except as provided in subsection (b), in a civil ac-  
7       tion arising under any Act of Congress relating to patents,  
8       if the court determines that a ruling relating to the con-  
9       struction of terms used in a patent claim asserted in the  
10      complaint is required, discovery shall be limited, until such  
11      ruling is issued, to information necessary for the court to  
12      determine the meaning of the terms used in the patent  
13      claim, including any interpretation of those terms used to  
14      support the claim of infringement.

15      “(b) DISCRETION TO EXPAND SCOPE OF DIS-  
16      COVERY.—

17      “(1) TIMELY RESOLUTION OF ACTIONS.—If,  
18      under any provision of Federal law (including the  
19      amendments made by the Drug Price Competition  
20      and Patent Term Restoration Act of 1984 (Public  
21      Law 98–417)), resolution within a specified period  
22      of time of a civil action arising under any Act of  
23      Congress relating to patents will necessarily affect  
24      the rights of a party with respect to the patent, the  
25      court may permit discovery, in addition to the dis-

1       covery authorized under subsection (a), before the  
 2       ruling described in subsection (a) is issued as nec-  
 3       essary to ensure timely resolution of the action.

4       “(2) RESOLUTION OF MOTIONS.—When nec-  
 5       essary to resolve a motion properly raised by a party  
 6       before a ruling relating to the construction of terms  
 7       described in subsection (a), the court may allow lim-  
 8       ited discovery in addition to the discovery authorized  
 9       under subsection (a) as necessary to resolve the mo-  
 10      tion.”.

11       (2) CONFORMING AMENDMENT.—The table of  
 12      sections for chapter 29 of title 35, United States  
 13      Code, is amended by adding at the end the following  
 14      new item:

“299A. Discovery in patent infringement action.”.

15       (c) EFFECTIVE DATE.—Except as otherwise provided  
 16      in this section, the amendments made by this section shall  
 17      take effect on the date of the enactment of this Act and  
 18      shall apply to any action for which a complaint is filed  
 19      on or after that date.

#### 20 SEC. 4. TRANSPARENCY OF PATENT OWNERSHIP.

21       (a) AMENDMENTS.—Section 290 of title 35, United  
 22      States Code, is amended—

23               (1) in the heading, by striking “**suits**” and in-  
 24      serting “**suits; disclosure of interests**”;

1 (2) by striking “The clerks” and inserting “(a)  
2 NOTICE OF PATENT SUITS.—The clerks”; and

3 (3) by adding at the end the following new sub-  
4 sections:

5 “(b) INITIAL DISCLOSURE.—

6 “(1) IN GENERAL.—Except as provided in para-  
7 graph (2), upon the filing of an initial complaint for  
8 patent infringement, the plaintiff shall disclose to  
9 the Patent and Trademark Office, the court, and  
10 each adverse party the identity of each of the fol-  
11 lowing:

12 “(A) The assignee of the patent or patents  
13 at issue.

14 “(B) Any entity with a right to sublicense  
15 or enforce the patent or patents at issue.

16 “(C) Any entity, other than the plaintiff,  
17 that the plaintiff knows to have a financial in-  
18 terest in the patent or patents at issue or the  
19 plaintiff.

20 “(D) The ultimate parent entity of any as-  
21 signee identified under subparagraph (A) and  
22 any entity identified under subparagraphs (B)  
23 and (C).

24 “(2) EXEMPTION.—The requirements of para-  
25 graph (1) shall not apply with respect to a civil ac-

tion filed under subsection (a) that includes a cause of action described under section 271(e)(2).

“(c) DISCLOSURE COMPLIANCE.—

“(1) PUBLICLY TRADED.—For purposes of subsection (b)(1)(C), if the financial interest is held by a corporation traded on a public stock exchange, an identification of the name of the corporation and the public exchange listing shall satisfy the disclosure requirement.

“(2) NOT PUBLICLY TRADED.—For purposes of subsection (b)(1)(C), if the financial interest is not held by a publicly traded corporation, the disclosure shall satisfy the disclosure requirement if the information identifies—

“(A) in the case of a partnership, the name of the partnership and the name and correspondence address of each partner or other entity that holds more than a 5-percent share of that partnership;

“(B) in the case of a corporation, the name of the corporation, the location of incorporation, the address of the principal place of business, and the name of each officer of the corporation; and

1           “(C) for each individual, the name and  
2           correspondence address of that individual.

3           “(d) ONGOING DUTY OF DISCLOSURE TO THE PAT-  
4 ENT AND TRADEMARK OFFICE.—

5           “(1) IN GENERAL.—A plaintiff required to sub-  
6           mit information under subsection (b) or a subse-  
7           quent owner of the patent or patents at issue shall,  
8           not later than 90 days after any change in the as-  
9           signee of the patent or patents at issue or an entity  
10          described under subparagraphs (B) and (D) of sub-  
11          section (b)(1), submit to the Patent and Trademark  
12          Office the updated identification of such assignee or  
13          entity.

14          “(2) FAILURE TO COMPLY.—With respect to a  
15          patent for which the requirement of paragraph (1)  
16          has not been met—

17                 “(A) the plaintiff or subsequent owner  
18                 shall not be entitled to recover reasonable fees  
19                 and other expenses under section 285 or in-  
20                 creased damages under section 284 with respect  
21                 to infringing activities taking place during any  
22                 period of noncompliance with paragraph (1),  
23                 unless the denial of such damages or fees would  
24                 be manifestly unjust; and

1 “(B) the court shall award to a prevailing  
2 party accused of infringement reasonable fees  
3 and other expenses incurred to discover the up-  
4 dated assignee or entity described under para-  
5 graph (1), unless such sanctions would be un-  
6 just.

7 “(c) DEFINITIONS.—In this section:

8 “(1) FINANCIAL INTEREST.—The term ‘finan-  
9 cial interest’—

10 “(A) means—

11 “(i) with regard to a patent or pat-  
12 ents, the right of a person to receive pro-  
13 ceeds related to the assertion of the patent  
14 or patents, including a fixed or variable  
15 portion of such proceeds; and

16 “(ii) with regard to the plaintiff, di-  
17 rect or indirect ownership or control by a  
18 person of more than 5 percent of such  
19 plaintiff; and

20 “(B) does not mean—

21 “(i) ownership of shares or other in-  
22 terests in a mutual or common investment  
23 fund, unless the owner of such interest  
24 participates in the management of such  
25 fund; or

1           “(ii) the proprietary interest of a pol-  
 2           icyholder in a mutual insurance company,  
 3           of a depositor in a mutual savings associa-  
 4           tion, or a similar proprietary interest, un-  
 5           less the outcome of the proceeding could  
 6           substantially affect the value of such inter-  
 7           est.

8           “(2) PROCEEDING.—The term ‘proceeding’  
 9           means all stages of a civil action, including pretrial  
 10          and trial proceedings and appellate review.

11          “(3) ULTIMATE PARENT ENTITY.—

12           “(A) IN GENERAL.—Except as provided in  
 13           subparagraph (B), the term ‘ultimate parent  
 14           entity’ has the meaning given such term in sec-  
 15           tion 801.1(a)(3) of title 16, Code of Federal  
 16           Regulations, or any successor regulation.

17           “(B) MODIFICATION OF DEFINITION.—The  
 18           Director may modify the definition of ‘ultimate  
 19           parent entity’ by regulation.”.

20          (b) TECHNICAL AND CONFORMING AMENDMENT.—  
 21          The item relating to section 290 in the table of sections  
 22          for chapter 29 of title 35, United States Code, is amended  
 23          to read as follows:

            “290. Notice of patent suits; disclosure of interests.”.

24          (c) REGULATIONS.—The Director may promulgate  
 25          such regulations as are necessary to establish a registra-



1 tion fee in an amount sufficient to recover the estimated  
2 costs of administering subsections (b) through (e) of sec-  
3 tion 290 of title 35, United States Code, as added by sub-  
4 section (a), to facilitate the collection and maintenance of  
5 the information required by such subsections, and to en-  
6 sure the timely disclosure of such information to the pub-  
7 lic.

8 (d) EFFECTIVE DATE.—The amendments made by  
9 this section shall take effect upon the expiration of the  
10 6-month period beginning on the date of the enactment  
11 of this Act and shall apply to any action for which a com-  
12 plaint is filed on or after such effective date.

13 **SEC. 5. CUSTOMER-SUIT EXCEPTION.**

14 (a) AMENDMENT.—Section 296 of title 35, United  
15 States Code, is amended to read as follows:

16 **“§ 296. Stay of action against customer**

17 “(a) STAY OF ACTION AGAINST CUSTOMER.—Except  
18 as provided in subsection (d), in any civil action arising  
19 under any Act of Congress relating to patents, the court  
20 shall grant a motion to stay at least the portion of the  
21 action against a covered customer related to infringement  
22 of a patent involving a covered product or process if the  
23 following requirements are met:

24 “(1) The covered manufacturer and the covered  
25 customer consent in writing to the stay.

1           “(2) The covered manufacturer is a party to  
2           the action or to a separate action involving the same  
3           patent or patents related to the same covered prod-  
4           uct or process.

5           “(3) The covered customer agrees to be bound  
6           by any judgment entered against the covered manu-  
7           facturer to the same extent that the covered manu-  
8           facturer may be bound with respect to issues that  
9           the covered manufacturer and the covered customer  
10          have in common.

11          “(4) The motion is filed after the first pleading  
12          in the action and not later than 120 days after serv-  
13          ice of the first pleading in the action that specifically  
14          identifies—

15               “(A) the covered product or process as a  
16               basis for the alleged infringement of the patent  
17               by the covered customer; and

18               “(B) how the covered product or process is  
19               alleged to infringe the patent.

20          “(b) APPLICABILITY OF STAY.—A stay issued pursu-  
21          ant to subsection (a) shall apply only to the patents, prod-  
22          ucts, systems, or components accused of infringement in  
23          the action.

24          “(c) LIFT OF STAY.—

1           “(1) IN GENERAL.—A stay entered pursuant to  
2           this section may be lifted upon grant of a motion  
3           based on a showing that—

4                   “(A) the action involving the covered man-  
5                   ufacturer will not resolve a major issue in suit  
6                   against the covered customer; or

7                   “(B) the stay unreasonably prejudices and  
8                   would be manifestly unjust to the party seeking  
9                   to lift the stay.

10           “(2) SEPARATE MANUFACTURER ACTION IN-  
11           VOLVED.—In the case of a stay entered based on the  
12           participation of the covered manufacturer in a sepa-  
13           rate action involving the same patent or patents re-  
14           lated to the same covered product or process, a mo-  
15           tion under this subsection may only be made if the  
16           court in such separate action determines the show-  
17           ing required under paragraph (1) has been met.

18           “(d) EXEMPTION.—This section shall not apply to an  
19           action that includes a cause of action described under sec-  
20           tion 271(e).

21           “(e) RULE OF CONSTRUCTION.—Nothing in this sec-  
22           tion shall be construed to limit the ability of a court to  
23           grant any stay, or expand any stay granted pursuant to  
24           this section, if otherwise permitted by law.

25           “(f) DEFINITIONS.—In this section:

1           “(1) COVERED CUSTOMER.—The term ‘covered  
2           customer’ means a party accused of infringing a pat-  
3           ent or patents in dispute based on a covered product  
4           or process.

5           “(2) COVERED MANUFACTURER.—The term  
6           ‘covered manufacturer’ means a person that manu-  
7           factures or supplies, or causes the manufacture or  
8           supply of, a covered product or process or a relevant  
9           part of such product or process.

10          “(3) COVERED PRODUCT OR PROCESS.—The  
11          term ‘covered product or process’ means a product,  
12          process, system, service, component, material, or ap-  
13          paratus, or relevant part thereof, that—

14                 “(A) is alleged to infringe the patent or  
15                 patents in dispute; or

16                 “(B) implements a process alleged to in-  
17                 fringe the patent or patents in dispute.”.

18          (b) CONFORMING AMENDMENT.—The table of sec-  
19          tions for chapter 29 of title 35, United States Code, is  
20          amended by striking the item relating to section 296 and  
21          inserting the following:

                  “296. Stay of action against customer.”.

22          (c) EFFECTIVE DATE.—The amendments made by  
23          this section shall take effect on the date of the enactment  
24          of this Act and shall apply to any action for which a com-  
25          plaint is filed on or after that date.

1 **SEC. 6. PROCEDURES AND PRACTICES TO IMPLEMENT AND**  
2 **RECOMMENDATIONS TO THE JUDICIAL CON-**  
3 **FERENCE.**

4 (a) JUDICIAL CONFERENCE RULES AND PROCE-  
5 DURES ON DISCOVERY BURDENS AND COSTS.—

6 (1) RULES AND PROCEDURES.—The Judicial  
7 Conference of the United States, using existing re-  
8 sources, shall develop rules and procedures to imple-  
9 ment the requirements described in paragraph (2) to  
10 address the asymmetries in discovery burdens and  
11 costs in any civil action arising under any Act of  
12 Congress relating to patents. Such rules and proce-  
13 dures shall include how and when payment for docu-  
14 ment discovery in addition to the discovery of core  
15 documentary evidence is to occur, and what informa-  
16 tion must be presented to demonstrate financial ca-  
17 pacity before permitting document discovery in addi-  
18 tion to the discovery of core documentary evidence.

19 (2) RULES AND PROCEDURES TO BE CONSID-  
20 ERED.—The rules and procedures required under  
21 paragraph (1) shall include each of the following re-  
22 quirements:

23 (A) DISCOVERY OF CORE DOCUMENTARY  
24 EVIDENCE.—Each party to the action is enti-  
25 tled to receive core documentary evidence and  
26 shall be responsible for the costs of producing

1 core documentary evidence within the posses-  
2 sion or control of each such party. Each party  
3 to the action may seek nondocumentary dis-  
4 covery as otherwise provided in the Federal  
5 Rules of Civil Procedure.

6 (B) ELECTRONIC COMMUNICATION.—If the  
7 parties determine that the discovery of elec-  
8 tronic communication is necessary, such dis-  
9 covery shall occur after the parties have ex-  
10 changed initial disclosures and core documen-  
11 tary evidence and shall be in accordance with  
12 the following:

13 (i) Any request for the production of  
14 electronic communication shall be specific  
15 and may not be a general request for the  
16 production of information relating to a  
17 product or business.

18 (ii) Each request shall identify the  
19 custodian of the information requested, the  
20 search terms, and a time frame. The par-  
21 ties shall cooperate to identify the proper  
22 custodians, the proper search terms, and  
23 the proper time frame.

24 (iii) A party may not submit produc-  
25 tion requests to more than 5 custodians,

1 unless the parties jointly agree to modify  
2 the number of production requests without  
3 leave of the court.

4 (iv) The court may consider contested  
5 requests for up to 5 additional custodians  
6 per producing party, upon a showing of a  
7 distinct need based on the size, complexity,  
8 and issues of the case.

9 (v) If a party requests the discovery  
10 of electronic communication for additional  
11 custodians beyond the limits agreed to by  
12 the parties or granted by the court, the re-  
13 questing party shall bear all reasonable  
14 costs caused by such additional discovery.

15 (C) ADDITIONAL DOCUMENT DISCOVERY.—

16 (i) IN GENERAL.—Each party to the  
17 action may seek any additional document  
18 discovery otherwise permitted under the  
19 Federal Rules of Civil Procedure, if such  
20 party bears the reasonable costs, including  
21 reasonable attorney’s fees, of the additional  
22 document discovery.

23 (ii) REQUIREMENTS FOR ADDITIONAL  
24 DOCUMENT DISCOVERY.—Unless the par-  
25 ties mutually agree otherwise, no party

1 may be permitted additional document dis-  
2 covery unless such a party posts a bond, or  
3 provides other security, in an amount suffi-  
4 cient to cover the expected costs of such  
5 additional document discovery, or makes a  
6 showing to the court that such party has  
7 the financial capacity to pay the costs of  
8 such additional document discovery.

9 (iii) LIMITS ON ADDITIONAL DOCU-  
10 MENT DISCOVERY.—A court, upon motion,  
11 may determine that a request for addi-  
12 tional document discovery is excessive, ir-  
13 relevant, or otherwise abusive and may set  
14 limits on such additional document dis-  
15 covery.

16 (iv) GOOD CAUSE MODIFICATION.—A  
17 court, upon motion and for good cause  
18 shown, may modify the requirements of  
19 subparagraphs (A) and (B) and any defini-  
20 tion under paragraph (3). Not later than  
21 30 days after the pretrial conference under  
22 Rule 16 of the Federal Rules of Civil Pro-  
23 cedure, the parties shall jointly submit any  
24 proposed modifications of the requirements  
25 of subparagraphs (A) and (B) and any def-



1           initiation under paragraph (3), unless the  
2           parties do not agree, in which case each  
3           party shall submit any proposed modifica-  
4           tion of such party and a summary of the  
5           disagreement over the modification.

6           (v) COMPUTER CODE.—A court, upon  
7           motion and for good cause shown, may de-  
8           termine that computer code should be in-  
9           cluded in the discovery of core documen-  
10          tary evidence. The discovery of computer  
11          code shall occur after the parties have ex-  
12          changed initial disclosures and other core  
13          documentary evidence.

14          (D) DISCOVERY SEQUENCE AND SCOPE.—  
15          The parties shall discuss and address in the  
16          written report filed pursuant to Rule 26(f) of  
17          the Federal Rules of Civil Procedure the views  
18          and proposals of each party on the following:

19               (i) When the discovery of core docu-  
20               mentary evidence should be completed.

21               (ii) Whether additional document dis-  
22               covery will be sought under subparagraph  
23               (C).

24               (iii) Any issues about infringement,  
25               invalidity, or damages that, if resolved be-

1 fore the additional discovery described in  
2 subparagraph (C) commences, might sim-  
3 plify or streamline the case, including the  
4 identification of any terms or phrases re-  
5 lating to any patent claim at issue to be  
6 construed by the court and whether the  
7 early construction of any of those terms or  
8 phrases would be helpful.

9 (3) DEFINITIONS.—In this subsection:

10 (A) CORE DOCUMENTARY EVIDENCE.—In  
11 this subsection, the term “core documentary  
12 evidence”—

13 (i) includes—

14 (I) documents relating to the  
15 conception of, reduction to practice of,  
16 and application for, the patent or pat-  
17 ents at issue;

18 (II) documents sufficient to show  
19 the technical operation of the product  
20 or process identified in the complaint  
21 as infringing the patent or patents at  
22 issue;

23 (III) documents relating to po-  
24 tentially invalidating prior art;

1 (IV) documents relating to any  
2 licensing of, or other transfer of rights  
3 to, the patent or patents at issue be-  
4 fore the date on which the complaint  
5 is filed;

6 (V) documents sufficient to show  
7 profit attributable to the claimed in-  
8 vention of the patent or patents at  
9 issue;

10 (VI) documents relating to any  
11 knowledge by the accused infringer of  
12 the patent or patents at issue before  
13 the date on which the complaint is  
14 filed;

15 (VII) documents relating to any  
16 knowledge by the patentee of infringe-  
17 ment of the patent or patents at issue  
18 before the date on which the com-  
19 plaint is filed;

20 (VIII) documents relating to any  
21 licensing term or pricing commitment  
22 to which the patent or patents may be  
23 subject through any agency or stand-  
24 ard-setting body; and

1 (IX) documents sufficient to  
2 show any marking or other notice pro-  
3 vided of the patent or patents at  
4 issue; and

5 (ii) does not include computer code,  
6 except as specified in paragraph (2)(C)(v).

7 (B) ELECTRONIC COMMUNICATION.—The  
8 term “electronic communication” means any  
9 form of electronic communication, including  
10 email, text message, or instant message.

11 (4) IMPLEMENTATION BY THE DISTRICT  
12 COURTS.—Not later than 6 months after the date on  
13 which the Judicial Conference has developed the  
14 rules and procedures required by this subsection,  
15 each United States district court and the United  
16 States Court of Federal Claims shall revise the ap-  
17 plicable local rules for such court to implement such  
18 rules and procedures.

19 (5) AUTHORITY FOR JUDICIAL CONFERENCE TO  
20 REVIEW AND MODIFY.—The Judicial Conference  
21 shall study the efficacy of the rules and procedures  
22 required by this subsection during the first 4 years  
23 following the implementation of such rules and pro-  
24 cedures by the district courts and the United States  
25 Court of Federal Claims. The Judicial Conference

1       may modify such rules and procedures following  
2       such 4-year period.

3       (b) JUDICIAL CONFERENCE PATENT CASE MANAGE-  
4 MENT.—The Judicial Conference of the United States,  
5 using existing resources, shall develop case management  
6 procedures to be implemented by the United States dis-  
7 trict courts and the United States Court of Federal Claims  
8 for any civil action arising under any Act of Congress re-  
9 lating to patents, including initial disclosure and early case  
10 management conference practices that—

11           (1) will identify any potential dispositive issues  
12       of the case; and

13           (2) focus on early summary judgment motions  
14       when resolution of issues may lead to expedited dis-  
15       position of the case.

16       (c) REVISION OF FORM FOR PATENT INFRINGE-  
17 MENT.—

18           (1) ELIMINATION OF FORM.—The Supreme  
19       Court, using existing resources, shall eliminate Form  
20       18 in the Appendix to the Federal Rules of Civil  
21       Procedure (relating to Complaint for Patent In-  
22       fringement), effective on the date of the enactment  
23       of this Act.

24           (2) REVISED FORM.—The Supreme Court may  
25       prescribe a new form or forms setting out model al-

1 legations of patent infringement that, at a minimum,  
2 notify accused infringers of the asserted claim or  
3 claims, the products or services accused of infringe-  
4 ment, and the plaintiff's theory for how each ac-  
5 cused product or service meets each limitation of  
6 each asserted claim. The Judicial Conference should  
7 exercise the authority under section 2073 of title 28,  
8 United States Code, to make recommendations with  
9 respect to such new form or forms.

10 (d) PROTECTION OF INTELLECTUAL-PROPERTY LI-  
11 CENSES IN BANKRUPTCY.—

12 (1) IN GENERAL.—Section 1520(a) of title 11,  
13 United States Code, is amended—

14 (A) in paragraph (3), by striking “; and”  
15 and inserting a semicolon;

16 (B) in paragraph (4), by striking the pe-  
17 riod at the end and inserting “; and”; and

18 (C) by inserting at the end the following  
19 new paragraph:

20 “(5) section 365(n) applies to intellectual prop-  
21 erty of which the debtor is a licensor or which the  
22 debtor has transferred.”.

23 (2) EFFECTIVE DATE.—The amendments made  
24 by this subsection shall take effect on the date of the  
25 enactment of this Act and shall apply to any action

1 for which a complaint is pending on, or filed on or  
2 after, such date of enactment.

3 **SEC. 7. SMALL BUSINESS EDUCATION, OUTREACH, AND IN-**  
4 **FORMATION ACCESS.**

5 (a) SMALL BUSINESS EDUCATION AND OUT-  
6 REACH.—

7 (1) RESOURCES FOR SMALL BUSINESS.—Using  
8 existing resources, the Director shall develop edu-  
9 cational resources for small businesses to address  
10 concerns arising from patent infringement.

11 (2) SMALL BUSINESS PATENT OMBUDSMAN.—  
12 The Patent Ombudsman Program established under  
13 section 28 of the Leahy-Smith America Invents Act  
14 (Public Law 112–29; 125 Stat. 339; 35 U.S.C. 2  
15 note) shall coordinate with the existing small busi-  
16 ness outreach programs of the Office to provide edu-  
17 cation and awareness on abusive patent litigation  
18 practices.

19 (b) IMPROVING INFORMATION TRANSPARENCY FOR  
20 SMALL BUSINESS AND THE UNITED STATES PATENT AND  
21 TRADEMARK OFFICE USERS.—

22 (1) WEB SITE.—Using existing resources, the  
23 Director shall create a user-friendly section on the  
24 official Web site of the Office to notify the public  
25 when a patent case is brought in Federal court and

1 with respect to each patent at issue in such case, the  
2 Director shall include—

3 (A) information disclosed pursuant to sub-  
4 sections (b) and (d) of section 290 of title 35,  
5 United States Code, as added by section 4(a) of  
6 this Act; and

7 (B) any other information the Director de-  
8 termines to be relevant.

9 (2) **FORMAT.**—In order to promote accessibility  
10 for the public, the information described in para-  
11 graph (1) shall be searchable by patent number, pat-  
12 ent art area, and entity.

13 **SEC. 8. STUDIES ON PATENT TRANSACTIONS, QUALITY,**  
14 **AND EXAMINATION.**

15 (a) **STUDY ON SECONDARY MARKET OVERSIGHT FOR**  
16 **PATENT TRANSACTIONS TO PROMOTE TRANSPARENCY**  
17 **AND ETHICAL BUSINESS PRACTICES.**—

18 (1) **STUDY REQUIRED.**—The Director, in con-  
19 sultation with the Secretary of Commerce, the Sec-  
20 retary of the Treasury, the Chairman of the Securi-  
21 ties and Exchange Commission, the heads of other  
22 relevant agencies, and interested parties, shall, using  
23 existing resources of the Office, conduct a study—

24 (A) to develop legislative recommendations  
25 to ensure greater transparency and account-



1 ability in patent transactions occurring on the  
2 secondary market;

3 (B) to examine the economic impact that  
4 the patent secondary market has on the United  
5 States;

6 (C) to examine licensing and other over-  
7 sight requirements that may be placed on the  
8 patent secondary market, including on the par-  
9 ticipants in such markets, to ensure that the  
10 market is a level playing field and that brokers  
11 in the market have the requisite expertise and  
12 adhere to ethical business practices; and

13 (D) to examine the requirements placed on  
14 other markets.

15 (2) SUBMISSION OF STUDY.—Not later than 1  
16 year after the date of the enactment of this Act, the  
17 Director shall submit a report to the Committee on  
18 the Judiciary of the House of Representatives and  
19 the Committee on the Judiciary of the Senate on the  
20 findings and recommendations of the Director from  
21 the study required under paragraph (1).

22 (b) STUDY ON PATENTS OWNED BY THE UNITED  
23 STATES GOVERNMENT.—

24 (1) STUDY REQUIRED.—The Director, in con-  
25 sultation with the heads of relevant agencies and in-

1       terested parties, shall, using existing resources of the  
2       Office, conduct a study on patents owned by the  
3       United States Government that—

4               (A) examines how such patents are li-  
5               censed and sold, and any litigation relating to  
6               the licensing or sale of such patents;

7               (B) provides legislative and administrative  
8               recommendations on whether there should be  
9               restrictions placed on patents acquired from the  
10              United States Government;

11             (C) examines whether or not each relevant  
12             agency maintains adequate records on the pat-  
13             ents owned by such agency, specifically whether  
14             such agency addresses licensing, assignment,  
15             and Government grants for technology related  
16             to such patents; and

17             (D) provides recommendations to ensure  
18             that each relevant agency has an adequate  
19             point of contact that is responsible for man-  
20             aging the patent portfolio of the agency.

21       (2) REPORT ON STUDY.—Not later than 6  
22       months after the date of the enactment of this Act,  
23       the Director shall submit to the Committee on the  
24       Judiciary of the House of Representatives and the  
25       Committee on the Judiciary of the Senate a report

1 on the findings and recommendations of the Director  
2 from the study required under paragraph (1).

3 (c) STUDY ON PATENT QUALITY AND ACCESS TO  
4 THE BEST INFORMATION DURING EXAMINATION.—

5 (1) GAO STUDY.—The Comptroller General of  
6 the United States shall conduct a study on patent  
7 examination at the Office and the technologies avail-  
8 able to improve examination and improve patent  
9 quality.

10 (2) CONTENTS OF THE STUDY.—The study re-  
11 quired under paragraph (1) shall include the fol-  
12 lowing:

13 (A) An examination of patent quality at  
14 the Office.

15 (B) An examination of ways to improve  
16 quality, specifically through technology, that  
17 shall include examining best practices at foreign  
18 patent offices and the use of existing off-the-  
19 shelf technologies to improve patent examina-  
20 tion.

21 (C) A description of how patents are clas-  
22 sified.

23 (D) An examination of procedures in place  
24 to prevent double patenting through filing by  
25 applicants in multiple art areas.

1 (E) An examination of the types of off-the-  
2 shelf prior art databases and search software  
3 used by foreign patent offices and governments,  
4 particularly in Europe and Asia, and whether  
5 those databases and search tools could be used  
6 by the Office to improve patent examination.

7 (F) An examination of any other areas the  
8 Comptroller General determines to be relevant.

9 (3) REPORT TO CONGRESS.—Not later than 6  
10 months after the date of the enactment of this Act,  
11 the Comptroller General shall submit to the Com-  
12 mittee on the Judiciary of the House of Representa-  
13 tives and the Committee on the Judiciary of the  
14 Senate a report on the findings and recommenda-  
15 tions from the study required by this subsection, in-  
16 cluding recommendations for any changes to laws  
17 and regulations that will improve the examination of  
18 patent applications and patent quality.

19 **SEC. 9. IMPROVEMENTS AND TECHNICAL CORRECTIONS TO**  
20 **THE LEAHY-SMITH AMERICA INVENTS ACT.**

21 (a) REPEAL OF CIVIL ACTION TO OBTAIN A PAT-  
22 ENT.—

23 (1) REPEAL.—Section 145 of title 35, United  
24 States Code, is repealed.

25 (2) CONFORMING AMENDMENTS.—

1 (A) FEDERAL CIRCUIT JURISDICTION.—  
2 Section 1295(a)(4) of title 28, United States  
3 Code, is amended—

4 (i) in subparagraph (A), by striking  
5 “except that an applicant or a party” and  
6 all that follows through the end of the sub-  
7 paragraph and inserting the following: “ex-  
8 cept that a party to a derivation pro-  
9 ceeding may also have remedy by civil ac-  
10 tion pursuant to section 146 of title 35; an  
11 appeal under this subparagraph of a deci-  
12 sion of the Board with respect to a deriva-  
13 tion proceeding shall waive the right of  
14 such party to proceed under section 146 of  
15 title 35;” and

16 (ii) in subparagraph (C), by striking  
17 “section 145, 146, or” and inserting “sec-  
18 tion 146 or”.

19 (B) FEDERAL CIRCUIT APPEAL.—Section  
20 141(a) of title 35, United States Code, is  
21 amended—

22 (i) by striking “may appeal the  
23 Board’s decision to” and inserting “may  
24 appeal the Board’s decision only to”; and

25 (ii) by striking the second sentence.

1 (C) ADJUSTMENT OF PATENT TERM.—Sec-  
2 tion 154(b)(1)(A)(iii) of title 35, United States  
3 Code, is amended by striking “section 141, 145,  
4 or 146” and inserting “section 141 or 146”.

5 (D) CLERICAL AMENDMENT.—The table of  
6 sections for chapter 13 of title 35, United  
7 States Code, is amended by repealing the item  
8 relating to section 145.

9 (3) EFFECTIVE DATE.—The amendments made  
10 by this subsection shall apply to any proceeding in  
11 which a decision is made by the Patent Trial and  
12 Appeal Board on or after the date of the enactment  
13 of this Act.

14 (b) POST-GRANT REVIEW AMENDMENT.—Section  
15 325(e)(2) of title 35, United States Code is amended by  
16 striking “or reasonably could have raised”.

17 (c) USE OF DISTRICT-COURT CLAIM CONSTRUCTION  
18 IN POST-GRANT AND INTER PARTES REVIEWS.—

19 (1) INTER PARTES REVIEW.—Section 316(a) of  
20 title 35, United States Code, is amended—

21 (A) in paragraph (12), by striking “; and”  
22 and inserting a semicolon;

23 (B) in paragraph (13), by striking the pe-  
24 riod at the end and inserting “; and”; and

1 (C) by adding at the end the following new  
2 paragraph:

3 “(14) providing that for all purposes under this  
4 chapter—

5 “(A) each claim of a patent shall be con-  
6 strued as such claim would be in a civil action  
7 to invalidate a patent under section 282(b), in-  
8 cluding construing each claim of the patent in  
9 accordance with the ordinary and customary  
10 meaning of such claim as understood by one of  
11 ordinary skill in the art and the prosecution  
12 history pertaining to the patent; and

13 “(B) if a court has previously construed  
14 the claim or a claim term in a civil action in  
15 which the patent owner was a party, the Office  
16 shall consider such claim construction.”.

17 (2) POST-GRANT REVIEW.—Section 326(a) of  
18 title 35, United States Code, is amended—

19 (A) in paragraph (11), by striking “; and”  
20 and inserting a semicolon;

21 (B) in paragraph (12), by striking the pe-  
22 riod at the end and inserting “; and”; and

23 (C) by adding at the end the following new  
24 paragraph:

1 “(13) providing that for all purposes under this  
2 chapter—

3 “(A) each claim of a patent shall be con-  
4 strued as such claim would be in a civil action  
5 to invalidate a patent under section 282(b), in-  
6 cluding construing each claim of the patent in  
7 accordance with the ordinary and customary  
8 meaning of such claim as understood by one of  
9 ordinary skill in the art and the prosecution  
10 history pertaining to the patent; and

11 “(B) if a court has previously construed  
12 the claim or a claim term in a civil action in  
13 which the patent owner was a party, the Office  
14 shall consider such claim construction.”.

15 (3) TECHNICAL AND CONFORMING AMEND-  
16 MENT.—Section 18(a)(1)(A) of the Leahy-Smith  
17 America Invents Act (Public Law 112–29; 126 Stat.  
18 329) is amended by striking “Section 321(e)” and  
19 inserting “Sections 321(e) and 326(a)(13)”.

20 (4) EFFECTIVE DATE.—The amendments made  
21 by this subsection shall take effect upon the expira-  
22 tion of the 90-day period beginning on the date of  
23 the enactment of this Act, and shall apply to any  
24 proceeding under chapter 31 or 32 of title 35,



1 United States Code, for which the petition for review  
2 is filed on or after such effective date.

3 (d) CODIFICATION OF THE DOUBLE-PATENTING  
4 DOCTRINE FOR FIRST-INVENTOR-TO-FILE PATENTS.—

5 (1) AMENDMENT.—Chapter 10 of title 35,  
6 United States Code, is amended by adding at the  
7 end the following new section:

8 **“§ 106. Prior art in cases of double patenting**

9 “A claimed invention of a patent issued under section  
10 151 (referred to as the ‘first patent’) that is not prior art  
11 to a claimed invention of another patent (referred to as  
12 the ‘second patent’) shall be considered prior art to the  
13 claimed invention of the second patent for the purpose of  
14 determining the nonobviousness of the claimed invention  
15 of the second patent under section 103 if—

16 “(1) the claimed invention of the first patent  
17 was effectively filed under section 102(d) on or be-  
18 fore the effective filing date of the claimed invention  
19 of the second patent;

20 “(2) either—

21 “(A) the first patent and second patent  
22 name the same inventor; or

23 “(B) the claimed invention of the first pat-  
24 ent would constitute prior art to the claimed in-  
25 vention of the second patent under section

1           102(a)(2) if an exception under section  
2           102(b)(2) were deemed to be inapplicable and  
3           the claimed invention of the first patent was, or  
4           were deemed to be, effectively filed under sec-  
5           tion 102(d) before the effective filing date of  
6           the claimed invention of the second patent; and  
7           “(3) the patentee of the second patent has not  
8           disclaimed the rights to enforce the second patent  
9           independently from, and beyond the statutory term  
10          of, the first patent.”.

11          (2) REGULATIONS.—The Director shall promul-  
12          gate regulations setting forth the form and content  
13          of any disclaimer required for a patent to be issued  
14          in compliance with section 106 of title 35, United  
15          States Code, as added by paragraph (1). Such regu-  
16          lations shall apply to any disclaimer filed after a  
17          patent has issued. A disclaimer, when filed, shall be  
18          considered for the purpose of determining the valid-  
19          ity of the patent under section 106 of title 35,  
20          United States Code.

21          (3) CONFORMING AMENDMENT.—The table of  
22          sections for chapter 10 of title 35, United States  
23          Code, is amended by adding at the end the following  
24          new item:

“106. Prior art in cases of double patenting.”.

1 (4) EXCLUSIVE RULE.—A patent subject to sec-  
2 tion 106 of title 35, United States Code, as added  
3 by paragraph (1), shall not be held invalid on any  
4 nonstatutory, double-patenting ground.

5 (5) EFFECTIVE DATE.—The amendments made  
6 by this subsection shall take effect on the date of the  
7 enactment of this Act and shall apply to a patent or  
8 patent application only if both the first and second  
9 patents described in section 106 of title 35, United  
10 States Code, as added by paragraph (1), are patents  
11 or patent applications that are described in section  
12 3(n)(1) of the Leahy-Smith America Invents Act (35  
13 U.S.C. 100 note).

14 (e) COVERED BUSINESS METHOD PATENT RE-  
15 VIEWS.—

16 (1) LIMITATION; REPEAL.—

17 (A) LIMITATION TO FIRST-TO-INVENT PAT-  
18 ENTS.—Section 18(a)(2) of the Leahy-Smith  
19 America Invents Act is amended by striking  
20 “shall not apply to a patent described in section  
21 6(f)(2)(A) of this Act during the period in  
22 which a petition for post-grant review of that  
23 patent would satisfy the requirements of section  
24 321(c) of title 35, United States Code” and in-  
25 serting “shall not apply to a patent that is de-

1       scribed in section 3(n)(1) of this Act (but is not  
2       described in section 3(n)(2) of this Act)”.

3               (B) REPEAL OF SUNSET.—Section 18(a)  
4       of the Leahy-Smith America Invents Act (35  
5       U.S.C. 321 note) is amended by striking para-  
6       graph (3).

7               (C) EFFECTIVE DATE.—The amendments  
8       made by subparagraphs (A) and (B) shall take  
9       effect on the date of the enactment of this Act.

10       (2) DEFINITION; CLARIFICATION.—

11              (A) DEFINITION.—For purposes of section  
12       18(d) of the Leahy-Smith America Invents Act,  
13       the words “used in the practice, administration,  
14       or management of a financial product or serv-  
15       ice” shall be construed consistently with the in-  
16       stitution decision of the Patent Trial and Ap-  
17       peal Board of the United States Patent and  
18       Trademark Office in *SAP America, Inc. v.*  
19       *Versata Dev. Group, Inc.*, CBM2012–00001,  
20       Paper 36 (January 9, 2013).

21              (B) SCOPE OF PRIOR ART.—Section  
22       18(a)(1)(C)(i) of the Leahy-Smith America In-  
23       vents Act is amended by striking “section  
24       102(a)” and inserting “subsection (a), (d), or  
25       (e) of section 102”.

1 (C) EFFECTIVE DATE.—Subparagraph (A)  
2 and the amendment made by subparagraph (B)  
3 shall take effect on the date of the enactment  
4 of this Act and shall apply to any proceeding  
5 pending on, or filed on or after, such date of  
6 enactment.

7 (3) AUTHORITY TO WAIVE FEE.—Subject to  
8 available resources, the Director may waive payment  
9 of a filing fee for a transitional proceeding described  
10 under section 18(a) of the Leahy-Smith America In-  
11 vents Act (35 U.S.C. 321 note).

12 (f) CLARIFICATION OF LIMITS ON PATENT TERM AD-  
13 JUSTMENT.—

14 (1) AMENDMENTS.—Section 154(b)(1)(B) of  
15 title 35, United States Code, is amended—

16 (A) in the matter preceding clause (i), by  
17 striking “not including—” and inserting “the  
18 term of the patent shall be extended 1 day for  
19 each day after the end of that 3-year period  
20 until the patent is issued, not including—”;

21 (B) in clause (i), by striking “consumed by  
22 continued examination of the application re-  
23 quested by the applicant” and inserting “con-  
24 sumed after continued examination of the appli-  
25 cation is requested by the applicant”;

1 (C) in clause (iii), by striking the comma  
2 at the end and inserting a period; and

3 (D) by striking the matter following clause  
4 (iii).

5 (2) EFFECTIVE DATE.—The amendments made  
6 by this subsection shall apply to any patent applica-  
7 tion or patent that is pending on, or filed on or  
8 after, the date of the enactment of this Act.

9 (g) CLARIFICATION OF JURISDICTION.—

10 (1) IN GENERAL.—The Federal interest in pre-  
11 venting inconsistent final judicial determinations as  
12 to the legal force or effect of the claims in a patent  
13 presents a substantial Federal issue that is impor-  
14 tant to the Federal system as a whole.

15 (2) APPLICABILITY.—Paragraph (1)—

16 (A) shall apply to all cases filed on, after,  
17 or pending on, the date of the enactment of this  
18 Act; and

19 (B) shall not apply to a case in which a  
20 Federal court has issued a ruling on whether  
21 the case or a claim arises under any Act of  
22 Congress relating to patents or plant variety  
23 protection before the date of the enactment of  
24 this Act.

25 (h) TECHNICAL CORRECTIONS.—

1 (1) NOVELTY.—

2 (A) AMENDMENT.—Section 102(b)(1)(A)  
3 of title 35, United States Code, is amended by  
4 striking “the inventor or joint inventor or by  
5 another” and inserting “the inventor or a joint  
6 inventor or another”.

7 (B) EFFECTIVE DATE.—The amendment  
8 made by subparagraph (A) shall be effective as  
9 if included in the amendment made by section  
10 3(b)(1) of the Leahy-Smith America Invents  
11 Act (Public Law No. 112–29).

12 (2) INVENTOR’S OATH OR DECLARATION.—

13 (A) AMENDMENT.—Subsection (g)(1) of  
14 section 115 of title 35, United States Code, is  
15 amended—

16 (i) by striking “claims the benefit”  
17 and inserting “is entitled, as to each inven-  
18 tion claimed in the application, to the ben-  
19 efit”; and

20 (ii) in subparagraph (A), by striking  
21 “meeting the requirements of subsection  
22 (a) was executed by the individual and was  
23 filed in connection with the earlier-filed ap-  
24 plication” and inserting the following: “ex-  
25 ecuted by or on behalf of the individual

1           was filed in connection with the earlier-  
2           filed application and meets the require-  
3           ments of this section as effective on the  
4           date such oath or declaration was filed”.

5           (B) EFFECTIVE DATE.—The amendment  
6           made by subparagraph (A) shall be effective as  
7           if included in the amendment made by section  
8           4(a)(1) of the Leahy-Smith America Invents  
9           Act (Public Law No. 112–29).

10          (3) ASSIGNEE FILERS.—

11           (A) BENEFIT OF EARLIER FILING DATE;  
12           RIGHT OF PRIORITY.—Section 119(e)(1) of title  
13           35, United States Code, is amended, in the first  
14           sentence, by striking “by an inventor or inven-  
15           tors named” and inserting “that names the in-  
16           ventor or a joint inventor”.

17           (B) BENEFIT OF EARLIER FILING DATE IN  
18           THE UNITED STATES.—Section 120 of title 35,  
19           United States Code, is amended, in the first  
20           sentence, by striking “names an inventor or  
21           joint inventor” and inserting “names the inven-  
22           tor or a joint inventor”.

23           (C) EFFECTIVE DATE.—The amendments  
24           made by this paragraph shall take effect on the  
25           date of the enactment of this Act and shall



1       apply to any patent application, and any patent  
2       issuing from such application, that is filed on or  
3       after September 16, 2012.

4       (4) DERIVED PATENTS.—

5           (A) AMENDMENT.—Section 291(b) of title  
6       35, United States Code, is amended by striking  
7       “or joint inventor” and inserting “or a joint in-  
8       ventor”.

9           (B) EFFECTIVE DATE.—The amendment  
10      made by subparagraph (A) shall be effective as  
11      if included in the amendment made by section  
12      3(h)(1) of the Leahy-Smith America Invents  
13      Act (Public Law No. 112–29).

14      (5) SPECIFICATION.—Notwithstanding section  
15      4(e) of the Leahy-Smith America Invents Act (Pub-  
16      lic Law 112–29; 125 Stat. 297), the amendments  
17      made by subsections (c) and (d) of section 4 of such  
18      Act shall apply to any proceeding or matter, that is  
19      pending on, or filed on or after, the date of the en-  
20      actment of this Act.

21      (6) PATENT OWNER RESPONSE.—

22           (A) CONDUCT OF INTER PARTES RE-  
23      VIEW.—Paragraph (8) of section 316(a) of title  
24      35, United States Code, is amended by striking

1 “the petition under section 313” and inserting  
2 “the petition under section 311”.

3 (B) CONDUCT OF POST-GRANT REVIEW.—  
4 Paragraph (8) of section 326(a) of title 35,  
5 United States Code, is amended by striking  
6 “the petition under section 323” and inserting  
7 “the petition under section 321”.

8 (C) EFFECTIVE DATE.—The amendments  
9 made by this paragraph shall take effect on the  
10 date of the enactment of this Act.

11 (7) INTERNATIONAL APPLICATIONS.—

12 (A) AMENDMENTS.—Section 202(b) of the  
13 Patent Law Treaties Implementation Act of  
14 2012 (Public Law 112–211; 126 Stat. 1536) is  
15 amended—

16 (i) by striking paragraph (7); and

17 (ii) by redesignating paragraphs (8)  
18 and (9) as paragraphs (7) and (8).

19 (B) EFFECTIVE DATE.—The amendments  
20 made by subparagraph (A) shall be effective as  
21 if included in title II of the Patent Law Trea-  
22 ties Implementation Act of 2012 (Public Law  
23 112–21).

1 **SEC. 10. EFFECTIVE DATE.**

2       Except as otherwise provided in this Act, the provi-  
3 sions of this Act shall take effect on the date of the enact-  
4 ment of this Act, and shall apply to any patent issued,  
5 or any action filed, on or after that date.

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